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Restructuring In The Hospitality Industry

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Restructuring In The Hospitality Industry

Abstract

In her dialogue entitled - Restructuring in the Hospitality Industry - Elisa S. Moncarz, Associate Professor, the School of Hospitality Management at Florida International University, intends for you to know the following: "Recent years have seen a proliferation of restructurings of major American corporations creating an extremely important issue that has affected U.S. business. This article discusses restructuring issues in the hospitality industry, focusing attention on its causes and motivations, as well as on its benefits and perils. The author considers the impact of restructuring on investors and management while examining recent restructurings involving hospitality firms."

In defining the concept of restructuring, Associate Professor Moncarz informs you, "Restructuring entails the implementation of fundamental and comprehensive modification of a company's operational and/or financial structure."

"It has, indeed, become fashionable to take a company apart and put it back together in a different form," the author says. Additionally, Moncarz refers to a Wall Street Journal study, dated August 1985, which reveals that nearly half the large American corporations were, or were soon to be restructured in the 1984/85 time frame.

There are several distinct types of restructurings and the author wants you to be aware of some of them. "...threats of takeover attempts, the larger part of all restructuring have been initiated willingly in order to expand or divest a company's line of business (i.e., operational restructurings) or redirect its finances (i.e., financial restructurings)," the author reveals.

"Two principal types of operational restructurings are mergers and acquisitions [M&A], and divestitures [disposing of unwanted units or assets]," Moncarz further defines the concepts of expansion and divestiture.

The author explains several types of financial restructuring sketches used in the hospitality industry, including stock re-purchasing, debt issuances and redemptions, swapping debt for equity, and effective theories of realigning debt through extending loans and/or revising terms.

To expand their businesses, Moncarz makes anecdotal reference to several major food and beverage corporations that have successfully employed operational restructuring principles.

The author wades into the shallow end of the hostile takeover pool by explaining some of the corporate restructuring concepts used to repel that aggressive technique. Walt Disney Company completely redesigned their entire upper level management structure in a successful effort to thwart a hostile takeover bid by corporate raider Saul P. Steinberg, Moncarz informs.

To close, the author touches on leveraged buyouts [LBOs], and stock repurchases to divest unwanted divisions and immobilize hostile takeover attempts. A lengthy table of - Selected Restructurings in the Hospitality Industry [1982 to date of article] – is also included.

Keywords

Elisa S. Moncarz, Restructuring In the Hospitality Industry, Mergers, Acquisitions, Expansion, Divest, Hostile takeover, Leveraged buyouts [LBO's], Poison Pill, FIU, Beverage

Restructuring In The Hospitality Industry

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Recent years have seen a proliferation of restructurings of major American corporations, creating an extremely important issue that has affected U.S. business. This article discusses restructuring issues in the hospitality industry, focusing attention on its causes and motivations, as well as on its benefits and perils. The author considers the impact of restructuring on investors and management while examining recent restructurings involving hospitality firms.

Restructuring has exploded into a major happening that has surely transformed much of U.S. industry in the recent past. An unprecedented rise in restructurings of American corporations has been attributed to low interest rates, the Reagan administration's permissive antitrust and regulatory climate, a ready supply of financing, and a reasonably good economy over the past couple of years. Moreover, tax incentives in the form of liberal investment tax credits and accelerated recovery of property and equipment have also contributed to the restructure of companies, providing an additional source of inexpensive financing.

Restructuring entails the implementation of fundamental and comprehensive modifications of a company's operational and/or financial structure. It has, indeed, become fashionable to take a company apart and put it back together in a different form. According to a recent study reported in the Wall Street Journal in August 1985,¹ nearly half the large American corporations were restructured in 1984 and 1985 (or were soon to be restructured). These corporate transformations are reshaping the appearance of hospitality industry firms, raising broad concerns since in many instances the deals are heavily financed with debt. On the positive side, however, these restructurings have enabled the eradication of feeble, inefficient operations while placing corporate strategies into proper perspective.

More Restructurings Have Been Voluntary

Although some restructuring plans have been made under existing or potential threats of takeover attempts, the larger part of all restructurings have been initiated willingly in order to expand or divest a company's line of business (i.e., operational restructurings) or redirect its finances (i.e., financial restructurings).

Two principal types of operational restructurings are mergers and acquisitions (M&A) and divestitures (disposing of unwanted units or

assets). According to securities data,² mergers and acquisitions activity set record levels in 1985, reaching \$175 billion from \$116.7 billion in 1984 referred to as "the year of the megamergers." Analysts believe that this trend will moderate in 1986 due to high stock prices and a falling dollar. Yet, continued acquisitions of companies with established brand names and more divestitures of unwanted units and divisions are foreseen.

A widely used method of financial restructuring has been the stock repurchase programs which have resulted in companies buying back 648.9 million shares of their own common stock with an approximate value of \$32.01 billion during the period from January 1984 to July 1985. Other forms of financial restructuring used by hospitality firms include debt issuances and redemptions, swapping debt for equity, and realigning debt (e.g., extending loans and revising terms.)

Mergers and Acquisitions Play Important Role

Over the past decade several food and beverage companies, such as Pillsbury, Pepsico and General Mills, have been involved in major M&A activity in the food service segment of the hospitality industry, motivated by the desire to become more recession proof and attracted by the relatively higher returns of the restaurant business. This diversification trend has resulted in the acquiring companies utilizing the acquired restaurant concepts as major expansion vehicles.

Traditionally, the restaurants were successful concepts, well positioned and ready for growth. More recently, however, a few conglomerates and some of the stronger food service chains have acquired (or merged) other smaller, but growing restaurant operators who were in need of capital for expansion. Also, matured franchisors have been purchasing franchisees, whereas other established restaurants (and some lodging chains) have been buying into new geographic areas through M&A rather than by building them. Accordingly, a substantial portion of the recent M&A activity has been the result of disappointing sales and accumulated losses whereby stronger companies seek to acquire struggling chains while taking advantage of their net operating tax loss carry-forwards.

Pillsbury Made Series of Major Acquisitions

The diversification strategy followed by Pillsbury Co. since 1967 was intended to enable the food processor firm to continue to grow and expand in the face of decreasing sales of its Green Giant vegetables and refrigerated dough products. To that end, Pillsbury made a series of significant food service acquisitions into such companies as Burger King, Steak and Ale, and Bennigan's. Among the more recent acquisitions are Haagen Daaz, Van de Kamp, and Diversifoods.

The Diversifoods \$390 million acquisition, which was completed in 1985, became a significant contributor to the 22 percent increase in food service earnings (and a 30 percent revenue growth) reported by Pillsbury Co. for the first quarter of its 1986 fiscal year. Indeed, Pillsbury's food service division has grown into the company's major line of business, comprising over 50 percent of Pillsbury's sales and exceeding 70 percent of its earnings for the first quarter of the 1986 fiscal year.³

Currently, Pillsbury Co. is involved in substantial restructuring activity in the form of repositioning, consolidating, expanding and divesting several elements of its diverse restaurant holdings. In this regard, a major consolidation of the franchised Burger King units and the Godfather's pizza chain, which were part of the Diversifoods acquisition, was recently completed by Pillsbury. Conversely, at the end of 1985 Pillsbury sold the Chart House chain (also part of the Diversifoods acquisition) in a leveraged buyout (LBO) that included several members of Chart House's top management.⁴

Saga Becomes Multi-Faceted Company

Typical of the trend toward food service acquisitions has been the growth of Saga Corp., which successfully expanded beyond its earlier reliance on institutional food service to become a diversified company that comprised such restaurant concepts as Black Angus steakhouses, Velvet Turtle dinnerhouses, Spoon hamburger cafes, and Grandy's fried chicken restaurants. Indeed, restaurants account for almost 40 percent of Saga's revenue.

During the earlier 1980s a major operational restructuring program was undertaken by Saga in order to focus attention on the continued growth and diversification of its restaurant segment. This program included the elimination of one whole level of management, moving its corporate managers into new positions while creating a four-man office of the president, thus strengthening the company's position and increasing its efficiency. For several years this corporate restructuring was rewarding, and earnings increased to \$29.1 million on revenues of \$1.3 billion in the 1984 fiscal year.

But lately Saga's performance has been disappointing, with declining earnings stemming from lower customer counts, increased restaurant costs, and management judgmental factors. Moreover, analysts had been speculating that Saga's stock was undervalued since Saga had been trading in the \$20 per share range despite an estimated breakup value of at least \$40 per share. Because of this, Saga had been suggested as a likely candidate for a takeover or LBO. In May 1986, Marriott Corp. offered \$34 a share to acquire all the Saga's common stock, for a total of \$435.2 million.⁵ This original "friendly offer" was ignored by Saga's management, prompting Marriott to launch a tender offer of \$34 a share, hoping to become the nation's largest provider of institutional food service. The market reacted to this offer by increasing Saga's market price to \$37 per share (above Marriott's offer), suggesting the possibility of a higher bid.⁶

Some Restructurings Avoid Takeovers

Although most M&A's begin and end on friendly terms, there has been an escalation in corporate restructurings triggered by the desire to evade a hostile takeover. This has resulted in the dramatic transformation of these firms after repelling corporate raiders (also known as sharks).

In seeking to defend a company against potential takeover attempts, management may try a variety of tactics designed to lessen the attrac-

tiveness of the target company. These anti-takeover defenses are often instituted through bylaw or corporate charter changes. They include:

- establishing different classes of directors and staggering their terms
- abolishing cumulative voting
- creating an Employee Stock Ownership Plan (ESOP), which may be used as defense of a contested takeover attempt
- reincorporating in a state with an anti-takeover statute
- establishing a super majority vote (from 50 to 100 percent) for certain corporate transactions, including mergers, acquisitions, sale of assets and divestitures

At the end of 1985, over 60 percent of the Standard and Poor's 500 companies had adopted some sort of deterrent, and many mid-sized companies were considering anti-takeover devices, fearing that they may also become targets of takeover attempts.

A very popular shark-repellent practice has been the authorization of new shares either by a stock split or as a poison defense. In 1985 a Delaware Supreme Court ruled that poison pill anti-takeover devices that give shareholders of a target company the right to purchase suitor's shares at bargain prices were legal. This decision has provoked a proliferation of companies adopting such measures (e.g., McDonald's, Ralston Purina, Jerrico). In a February 1986 *Hotel and Motel Management* article,⁷ Anthony G. Marshall, nationally-acclaimed legal expert and dean of the Florida International University School of Hospitality Management, warned that the adoption of poison pill defenses may not be an effective practice in all cases since the Delaware decision did not guarantee the legality of all poison pills or that other states would be bound by Delaware law.

Recent Takeover Activity Caused by Conflicts

Michael C. Jensen of Harvard Business School noted in a 1986 *New York Times*⁸ article that the dominant cause for the recent takeover activity has been the tension between management and shareholders over the payout of cash in excess of that required to fund all the company's projects that would serve to maximize shareholder values. Based on this contention, Jensen feels that the prime takeover candidates are of two kinds:

- companies with poor management and disappointing results
- companies that have done exceptionally well and have large cash flows that they do not pay out to shareholders

Accordingly, deregulated industries (e.g., airlines) and industries generating high cash flows with low growth opportunities (food, tobacco, and capital intensive industries) have been prime candidates for takeover and restructuring activity.

There has been much criticism of restructuring activity associated with existing and potential hostile takeover attempts because of the over-

whelming debt load—typically in the form of high yield, high risk “junk securities.” This makes the target company more vulnerable to economic downturns. Besides, after repelling the raiders, corporate cash flow becomes directed toward the repayment of the debt rather than toward investments needed to make future growth possible.

On the other hand, many observers feel that when management feels the pressure of potential hostile takeovers, shareholders and the economy would normally gain since management would not be free to waste resources, thereby opening new opportunities by forcing these companies to become more competitive and efficient. Hence, many companies may actually be better off for the restructuring changes following hostile takeover attempts. Allen Jacobs of M.I.T. estimates that \$242 billion in potential gains through restructurings in the 43 largest companies were possible as of January 1985 from eliminating inefficiencies.

Moreover, if we use stock prices as a measure of corporate performance, we can see that takeover activity has caused extraordinary increases in market prices of pertinent companies. In 1985 takeovers and other restructurings have provided more than \$1 billion in profits to shareholders of target companies. Similarly, 4.7 percentage points of the 31.6 percent rise in the stock market came from acquisitions and restructurings.

Walt Disney Company Provides An Excellent Example

In 1984 Walt Disney Company was the center of a controversial takeover battle. After halting the takeover attempt of corporate raider Saul P. Steinberg (making a \$325 million greenmail payment), Walt Disney Company initiated a major corporate restructuring program⁹ that resulted in the arrival of a new management team comprised of 60 executives headed by Michael D. Eisner, chief executive officer and chairman of the board. The new management team adopted various restructuring measures, including the discontinuation of certain projects and the reevaluation and analysis of several options for future growth.

Since the restructuring program was implemented in 1984, Walt Disney has done quite well, with shares trading well above the raider's offer. In fact, Walt Disney Company has seen its stock rise by over 300 percent after making the appropriate adjustments for stock splits.

Other Hospitality Firms Also Affected

Hostile takeovers in the restaurant business were once unimaginable. At the present time, however, that is no longer the case, mainly because of the distressed sales that have made struggling chains a target to stronger companies. In 1985 an unsolicited takeover attempt was made by USA Cafes (owner of the Bonanza steakhouse chain), offering a \$16 a share bid for the Ponderosa steakhouse chain. Ponderosa resisted the attempt and succeeded when USA Cafes abandoned the endeavor in November 1985. Still, USA Cafes continued to support a possible merger of both companies, emphasizing the benefits to Ponderosa's management, franchisees, and employees.

Recently, there has been speculation of takeover attempts on well-established restaurant chains such as McDonalds, Wendy's, and Church

Fried Chicken. As a result, the stock prices of these companies have experienced major movements in an upward direction during the pertinent period of time.

Discarding Divisions Has Become Popular

Following the M&A boom of the past few years, a number of companies have been anxious to streamline their operations with the focus on increasing profitability and enhancing the firm's value. Accordingly, several conglomerates and other major corporations have been reevaluating their commitments to the hospitality industry, disillusioned with the need for more expertise, personal attention, and service than they are willing to provide.

As part of this refocusing trend among conglomerates and some major hospitality corporations, several companies have used the divesting approach of disposing of unwanted divisions that no longer fit the corporate strategies of the public companies that own them. These divestitures have involved outright sale of assets and units, LBOs, and liquidations. In this manner, companies can concentrate in the core business they know best. Generally, management perceives the divested divisions to be more valuable when they are sold singly because of the breakup value (a measure of the individual prices that the market would place on the components of a firm). The parts are worth more than the whole. The effect of determining a high breakup value for a company has been responsible for the tremendous rise in stock market prices when such a company considers the possibility of divesting itself of units or divisions.

Holiday Corp.'s 1982 sale of Delta Steamship lines to Cowley Maritime Corp. serves as an example of a divestiture of a line of business that was proving to be a financial burden to Holiday Corp. due to economic problems in the countries serviced by the steamship lines, in its poor performance and declining returns. Moreover, the sale of Delta Steamship lines was the culmination of Holiday Corp.'s seven-year strategy to divest non-hospitality operations. The \$96 million proceeds from the Delta sale were used to improve and expand the company's overall position in the hospitality industry and to reduce its floating-rate debt.

Imperial Group Divests Itself Of Howard Johnson's

In December 1979 Imperial Group PLC, a leading British conglomerate, paid \$630 million to acquire Howard Johnson Corp. in an attempt to participate in the booming American food and lodging business. In November 1985, the British conglomerate perceived the sale of the financially burdensome Howard Johnson's chain so desirable that they sold it (except for the Ground Round division) to Marriott Corp for \$300 million, including the assumption of \$138 million in debt. Imperial had failed to accomplish its goal of straightening out the chain and reversing a deteriorating trend that kept the company stagnant and unable to reach its full potential. The Ground Round chain remained Imperial's only operation in the U.S. and was to be expanded by increasing the number of franchised units.¹⁰

By contrast, Imperial's divestiture of Howard Johnson's was well

received by Marriott's shareholders since the purchase price was considered a real bargain. In addition, Marriott decided to keep only the Howard Johnson's company-owned restaurants, selling the lodging properties and the franchise system to Prime Motor Inns. As a result, the net acquisition price to Marriott was reduced to \$65 million. Marriott plans to convert the acquired restaurants into its Big Boy concept, making them more valuable since the average sales per unit for the Howard Johnson's restaurants is only \$750,000, whereas the Big Boy's average is about \$1.1 million sales per unit.¹¹

LBOs Widely Used As Restructuring Device

Leveraged buyouts (LBOs) have become a very popular restructuring device for

- divestitures of unwanted divisions
- halting hostile takeover attempts
- taking private undervalued public companies that have strong and competent management

LBOs provide a unique opportunity for talented managers to own and operate the business they are currently managing. They have produced productivity gains since the great appeal to management is that he or she changes from an employee to an entrepreneur and, therefore, becomes more committed, deriving increased productivity to the company.

A major feature of a LBO is the restructuring of corporate ownership by replacing the entire public stock interest with full equity ownership by a private consortium of top management, investment bankers, and institutional investors. The return to private ownership (going private) enables management to concentrate more on long-term goals without regard to the short-run orientation of the stock market or the potential impact of business decisions on earnings per share.

LBOs have been very rewarding to managers/entrepreneurs and to investment bankers because of the impressive returns received by all participants. Also, selling shareholders have been able to liquify assets while earning substantial premiums. Still, LBOs involve tremendous risk since they are heavily financed with debt. SEC chairman John R. Shad noted, "The greater the leverage, the greater the risks to the company, its shareholders and creditors." Shad further warned "the more leveraged takeovers and buyouts today, the more bankruptcies tomorrow."¹²

A recent surge of LBOs in the hospitality industry executed in 1985 included the Denny's, ARA Services, and Chart House. Denny's was considered well suited for a buyout among restaurant companies because of its strong financial position, undervalued assets, and high cash flow generation. Besides, Denny's had experienced remarkable expansion and increased profitability, and its management team was perceived as one of the most competent and respected in the restaurant industry.¹³

Faced with the prospects of slower expansion following the LBO, Denny's reversed a company trend that began in 1970 which was averse to the use of franchising as an expansion technique, and initiated a selective program of restaurant franchising. This was expected to maintain

Denny's expansion while generating franchise fees and continuing sales royalties to aid the service of the huge debt associated with the LBO. In addition, Denny's laid off portions of its headquarters and field supervisory personnel and closed one of its 16 regional offices during 1985.

More recently, W.R. Grace & Co., a large specialty chemical company, has considered disposing of a controlling interest in its diversified restaurant group in a LBO under the direction of Anwar Soliman, executive vice president in charge of Graces's restaurant group. W.R. Grace & Co. would retain a 49 percent interest in the restaurant group. The proceeds from this divesting interest, which are expected to exceed \$500 million, would be used to repay Grace's long-term debt in order to fortify its financial position, and for its open market stock repurchase program.¹⁴

Stock Repurchases Become Popular

A very popular form of financial restructuring that has been running at record pace is the repurchase of a company's shares of common stock. Typically, these stock buybacks occur when a company has some available cash or uses funds produced through other means (e.g., divestitures) to increase the holding of its own shares, thereby decreasing the amount of shares outstanding.

A repurchase program could be part of an overall restructuring effort or it could be used to reduce the effects of stock dilution. Another reason for implementing a stock repurchase program would be to avoid an unsolicited takeover attempt or to buy out specific shareholders. Moreover, stock buybacks have been undertaken in order to increase the market value of a stock when a company feels it is undervalued. The stock enhancement results from reducing the level of shareholders' equity.

Generally, most stock repurchases increase stock prices. A 1985 study by Merrill Lynch & Co. indicated that stock repurchases of 5 to 10 percent of a company's outstanding shares in the open market outperformed the market by 4.7 percent in the first week after the announcement, by 2.2 percent in the next six weeks, and by more than 3 percent in certain later weeks.¹⁵

Holiday Corp. Implemented Major Repurchases

Holiday Corp. has bought back about 36 percent of its common stock outstanding over the past five years. In January 1985 up to 10 million shares were offered for repurchase under the terms of a Dutch auction and another 2.5 million shares (or about 10 percent of the total outstanding shares) has been recently authorized for repurchase. A prime reason for these stock repurchases has been Holiday Corp.'s management perception that the market had undervalued the company's assets and earnings potential. Surely, Holiday Corp.'s earnings per share and stock values have experienced major increases as a result of these stock buybacks.

The 1985 stock repurchase completed by Holiday Corp. was financed from borrowings under the terms of a credit agreement with a group of major commercial banks. As a result of the increased debt, Holiday's long-term debt as a percentage of total capitalization increased to 44 per-

cent. In order to facilitate the debt repayment, Holiday Corp. has been involved in the sale of some of its hotel properties to syndicated partnerships, maintaining the rights to manage the hotels. These property sales accounted for a \$2.50 rise in earnings per share for 1985 (out of a total of \$5.38 earnings per share reported by Holiday Corp. for the year 1985) as well as for a substantial increase in its return on assets.¹⁶

Industry Sees Other Restructurings

Other financial restructurings by hospitality firms were initiated in order to

- avoid bankruptcy-law filing or liquidation
- strengthen the company's financial position

Facing the possibility of bankruptcy as a result of the shakeout of its pizza restaurant division, Brock Hotels initiated a financial restructuring in 1985. The plan included a common stock right offering to eliminate \$127 million in long-term debt. Additionally, Brock Hotels extended a debenture swap and sold its interest in certain hotel properties in order to fit its financial restructuring program. These steps were designed to save Brock from bankruptcy. Although Brock Hotels Corp. reported a \$74 million loss for the year ended December 1985, plans to purchase 80 percent interest in Park Inns Hotels (which had been operated by Brock under the terms of a management agreement) were announced by the company after June 30, 1986, when it was scheduled to complete the financial restructuring.

Another illustration of a financial restructuring program in the hospitality industry is provided by Ramada Inns,¹⁷ which had been involved in a five-year restructuring program (both operational and financial) since the early '80s. The program, intended to restore Ramada's financial strength and improve its capital base, comprised the selective sale of company-owned properties while using the proceeds from these property dispositions for debt reductions. To this end, Ramada Inns reduced its debt ratio by over 20 percent, selling more than 60 properties during the years 1982 through 1985. During this period Ramada Inns had to retreat from any type of diversification they may have intended. Nonetheless, keeping with the philosophy of de-emphasizing company-owned properties, Ramada placed more emphasis on franchising and management contracts. Commencing in 1983, Ramada Inns had a financial turnaround, attributed to the restructuring program and to the dramatic upturn in operating results of the Atlantic City Tropicana property, which had been responsible for the severe cash flow problems experienced by Ramada Inns in 1981.

Table 1 sets forth major restructurings implemented by hospitality firms during the period 1982 to 1986.

Future Looks Uncertain

With all the restructurings going on in the hospitality industry today, this activity has become a major aspect of the industry. There are a number of current issues, however, that should affect the continuation of a positive environment for restructuring activity in the future:

Table 1
Selected Restructurings in the Hospitality Industry-1982 to Date

1983	Collins Foods	M&A-acquisition of Gino's East	2.5	
1983	Denny's Inc.	M&A-acquisition of El Pollo Loco Chain	11.3	
1985	Denny's Inc.	Going private-LBO	752.2	
1983	Diversifoods Inc.	M&A-Merger of Chart House and Godfather's Pizza chains	308	Merger resulted in the formation of a new company, Diversifoods
1985	General Mills	Divestiture-sale of Darryl's and Casa Gallardo Chains to W.R. Grace & Co.	N.A.	
1983	W.R. Grace & Co.	M&A-acquisition of T.J. Applebee's and Mor Foods 'N Fun	N.A.	
1985	W.R. Grace & Co.	M&A-acquisition of Hungry Tiger chain	21	
1986	W.R. Grace & Co.	M&A-acquisition of significant share of American Cafe Chain	N.A.	
1986	W.R. Grace & Co.	Divestiture-Restaurant group to be taken private in a LBO led by VP of Restaurant group, A. Soliman	500	Pending-W.R. Grace would retain 49% interest in restaurant group
1982	Holiday Corp.	Divestiture-sale of Delta Steamship Lines	96	Final disposal of non-hospitality operations
1981-85	Holiday Corp.	Stock Repurchase programs	381.7	
1986	Horn & Hardart	Operational Restructuring Food-service overhaul	N.A.	Losses in Bojangle's chain

Year(s)	Company	Description	Value	Comments
1985	Imperial PLC Group	Divestiture--sale of Howard Johnson chain to Marriott Corp.	300	See Marriott sale of Howard Johnson's lodging properties and franchised restaurants below
1981-85	Lifestyles Restaurants	Financial and Operational Restructuring	N.A.	Formerly Beefsteak Charlie's
1985	Marriott Corp.	M&A deal--sale of Howard Johnson's lodging properties and franchised restaurants to Prime Motor Inns	235	Part of M&A deal for Howard Johnson's acquisition from Imperial Group
1986	Marriott Corp.	Takeover bid to buy SAGA Corp.--Tender offer	435.2	Pending--Marriott primary target is SAGA's contract food service
1983	Pillsbury Co.	Divestiture--sale of Poppin Fresh Coffee Shop to Vicorp.	38	
1985	Pillsbury Co.	M&A--acquisition of Diversifoods	360	
1986	Pillsbury Co.	Consolidation of Burger King franchised restaurants and Godfather's Pizza	N.A.	Part of Diversifoods acquisition
1986	Pillsbury Co.	LBO--sale of Chart House	N.A.	Part of Diversifoods acquisition
1981-86	Ramada Inns	5 year divestiture program financial restructuring	N.A.	Selective sale of company owned properties in order to improve financial structure by decreasing debt
1985	Ralston Purina	Divestiture--sale of Foodmaker in LBO	450	As a result of sale of Foodmaker (operator of Jack in the Box), Ralston Purina is no longer involved in the food service industry
1985	Restaurant Associates	M&A--acquisition of Acapulco Restaurants	20	
1982	R.J. Reynolds	M&A--acquisition of Heublin's	1360	Heublin's acquisition included Kentucky Fried Chicken fast-food chain
1983	SAGA Corp.	M&A--acquisition of Grandy's & Spoon's Restaurants	69	

Year(s)	Company	Description	Value	Comments
1986	Wendy's	M&A-acquisition of franchisee Restaurant Systems, Inc.	46	
1984	Walt Disney Co.	Operational Restructuring Corporate changes	N.A.	Restructuring program was triggered by takeover attempt by financier Saul Steinberg. An alliance with the Bass family of Texas helped Disney Co. fend off Steinberg and a subsequent attempt by Irwin Jacobs

•The Federal Reserve Board (FRB) restraint on the use of above-market yield, unrated debt that is below investment grade (better known as junk securities) in hostile takeovers and buyouts. The FRB adopted a requirement in January 1986 to curb the use of junk securities in financing these transactions.

•The role that the controversial “poison pill” device (recently authorized by a Delaware court) and other anti-takeover measures may play as deterrents of hostile takeover attempts.

•A decrease in M&A activity (both friendly mergers and hostile takeovers) due to the relatively high stock prices and a falling dollar. Yet corporate divestitures are expected to continue to rise as companies reevaluate their recent acquisitions and dispose of unwanted units and divisions.

•Expression of criticism of the undue risks of leveraged buyouts and takeovers that has come from government officials, academicians, and business executives whereby these parties have voiced warnings and questioned the wisdom of leveraged takeovers and buyouts. Critics have become wary that the massive debt associated with these restructuring moves could jeopardize a company's existence in the event of an economic downturn or rising interest rates.

•Because of stock prices reaching record highs, a number of companies are expected to cut back on stock repurchase programs.

•Tax loss carryforwards treated differently under the tax overhaul proposal being considered by Congress. If enacted, it will no longer be advantageous to acquire a company that has experienced losses for the sole purpose of reducing the acquiring company's tax liability. In addition, there would be a tax imposed on the unrealized appreciation above the

tangible book value of the acquired assets that would affect M&A activity.

•The proposed changes in the tax code pertaining to write-offs associated with property and equipment could also have a dampening effect on the restructuring phenomenon. Specifically, the proposal would repeal the investment tax credit and slow depreciation deductions for property and equipment, thus increasing taxes and forcing investment decisions to be made for economic substance rather than for its tax benefits. In fact, uncertainty concerning the outcome of the tax overhaul proposal had already slowed down some M&A activity during 1986.

Enthusiasm seen in the recent past for taking companies apart and putting them back together in different shapes through various forms of restructurings is expected to subside in the future. Still, some positive motives that gave rise to the present surge of restructuring activity should remain critical factors for the hospitality industry, especially the urgency for better utilization of a firm's assets and improved managerial efficiency.

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