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Carl's Jr. nears buyout endgame

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South Coast, meet buyout specialist Leon Black. He does not mess around.

Black is believed to be the man behind an April 19 bid of $12.55 per share for Carpinteria-based CKE Restaurants, the parent of Carl's Jr. and Hardees. That's a whopping 13.5 percent higher than the $11.05 on the table from Boston-based private equity firm Thomas H. Lee Partners, or THL.

"When you see a buyout firm do that, they're sending a blatant message to the other bidder: Don't mess with us," said Lloyd Greif, CEO of Los Angeles-based investment bank Greif & Co.

CKE has been the subject of a buyout bid since February, when THL made its initial offer of $619 million in cash and the assumption of $309 million in net debt. Though the burger company remains profitable — it earned $15 million in the most recent quarter from its more than 3,000 stores — its same-store sales have been in decline amid a crummy California economy.

On April 7, CKE said it had received a late bid that might top THL's offer. It didn't announce the bidder or the price, but Reuters, quoting unnamed sources, said the rival was Apollo Management, part of Black's business empire.

Apollo's offer works out to about $694 million in cash. The premium more than covers the $15 million breakup fee plus up to $5 million in costs that CKE will pay if it walks away from THL. CKE wouldn't confirm that THL's rival is Apollo.

"CKE Restaurants announced that the excluded party — we cannot confirm who it is — made a superior offer of $12.55 a share," said CKE spokeswomen Beth Mansfield.

Under its agreement with THL, CKE has to give the Boston firm four days of negotiations to make a better offer. If not, CKE said it expects to accept the new offer and deliver the paperwork to seal the deal by April 24.

Since the new bid price was announced, CKE's shares have shot up to the $12.80 range, suggesting that investors are banking on a bidding war. Greif doubts that THL has much more dry powder in reserve.

"[Black and Apollo] are serious, serious guys — not to be taken lightly or trifled with," Greif said. "If THL were to come back to make a revised offer, I don't think Apollo would back down. There's certainly the potential for a bidding war, but I think the more likely outcome is that THL will throw in the towel."

According to documents filed in connection with the offer, THL had about $450 million in financing lined up from Bank of America and planned to sell $150 million in notes. Another buyer isn't like to get a significantly better financing deal, Greif said.

"Debt financing just isn't that available," Greif said. "[Bidders] are at a point now where everything they add to the price is coming out of their own pockets."

And then there is the question of value. The $12.55 bid reaches near a price-to-earnings ratio of 13 for CKE. In contrast, Burger King shares trade for around 14 times projected profits, and McDonald's goes for about 14.5 times earnings. Both are established brands with better same-store sales than CKE.

"I think that the $12.55 offer is a deal CKE shareholders should feel comfortable about doing," Greif said. "It's a fair price."

After the announcement of the THL deal, executives at CKE sought to reassure the company's 179 employees on the South Coast that not much would change after a buyout. But Black has a history of replacing executives at his acquisitions and shook up management at Linens 'n Things, Smart & Final and Vail Resorts after purchasing them.

"Management is pretty much on the sidelines at this point," Greif said. "It's not their call. If I'm management, I'm dusting off my resume."

Andrew F. Puzder, CEO of CKE, made $7.35 million last year. He stands to be paid $24.8 million for his 1.98 million shares of CKE's common stock.