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Carl's Jr. to go private, stay local

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Though it's going private, CKE Restaurants is hinting that it plans to stay on the South Coast.

Carpinteria-based CKE, the parent company of Carl's Jr. and Hardee's fast-food chains, agreed on Feb. 26 to a buyout by a Boston-based private equity firm for $928 million in cash and the assumption of $309 million in net debt. The deal represents a payout for the underperforming burger maker's battered shareholders and executives.

CKE and its prospective buyer couldn't comment for this story because of a regulatory quiet period until the deal goes through. But Chief Executive Officer Andrew Puzder immediately sought to reassure the 179 employees at CKE's oceanfront headquarters on Carpinteria Avenue that no major shifts were planned.

"CKE's management team will remain in place. In essence, not much should change in your day-to-day work experience at CKE," Puzder wrote in a letter to CKE employees Feb. 26. "[We] look forward to continuing our great work together for many, many years."

CKE isn't the only tri-county firm to announce big news to Wall Street in recent weeks. Santa Paula-based citrus giant Limoneira Co. announced it had filed papers to go public on the Nasdaq stock exchange. Santa Barbara-based Select Staffing, the largest private company in the Tri-Counties, said in mid-February that a going-public deal it had in the works at the end of 2009 had fallen through.

Private equity firm Thomas H. Lee Partners, or THL, said it will offer CKE stockholders $11.05 in cash per common share, a 24 percent premium to the stock's closing price of $8.91 the day before the deal was announced. To finance the buyout, THL would tap Bank of America for $450 million and sell another $150 million in notes.

If the deal closes, it could mean a cash payment for Puzder, who received $7.35 million in total compensation for his duties as CEO in 2009. His 3.6 percent common-share stake in CKE would be worth $13.4 million in the deal, a figure that could rise to $21.8 million if some soon-to-vest stock options activate as is lined out in the merger agreement.

Richard Pickup, a Las Vegas investor who owns 10.6 percent of CKE's common stock, would receive $64 million in the buyout. BlackRock Inc., which acquired a nearly 7 percent stake in CKE when it bought out Barclays Global Investors late last year, would get a $42.6 million payment for its shares.

In past interviews with the Business Times, Puzder has emphasized CKE's push to market its massive burgers to "young, hungry guys" who seek "decadent and delicious" dining. The firm's edgy advertising often includes lots of bacon and young female models with very little wardrobe.

In the past, Puzder said CKE eschewed the dollar-menu craze to focus on bigger, more expensive burgers with better margins. But same-store sales have slumped 4.2 percent in the early part of 2010, and profits were stalled at $32.8 million at the 40 weeks ended November 2009, compared to $34.3 million a year earlier.

CKE's stock has bounced from a high of $11.52 to a bottom of $5.65 in the past year. Relative to CKE's earnings, its shares have traded at a low price compared with competitors such as McDonald's or Burger King, said Lloyd Greif, CEO of Los Angeles-based investment bank Greif & Co.

That makes the Carpinteria company a good way for a private equity firm to gain a foothold in the fast-food business, he said. "[THL] targeted a player in this space because of the way the economy is going, found a player who was underperforming and went after it," Greif said. "It's not a bad time to buy a fast-food chain because everyone is trying to make their dollars go farther."

It's not the first food-related venture for THL. It also owns foodservice firm Aramark Corp., coffee-and-pastry chain Dunkin' Donuts and ice-cream seller Baskin-Robbins.

Though THL has made no announcements about its plans for CKE, Greif said the equity firm will focus on sales. CKE's burgers have a good profit margin, but it hasn't sold enough of them to keep investors happy. "What you need to do is generate top-line growth, and clearly that's something Carl's Jr. isn't doing," Greif said. "These are very savvy investors in anything food-related. These guys know the space and feel they can bring value to the table."

THL and CKE haven't yet said what the merger could mean for CKE's 3,147 restaurants, which are in 42 states and 14 countries. On Feb. 26, Michael Murphy, CKE's president and chief legal officer, sent a letter to CKE's franchisees addressing the deal.

"We expect the sale process and transition to be seamless," Murphy wrote in the letter. "Your franchise agreements will remain in place and will not be affected by the sale, and you will continue to deal with the same people in our organization as you always have after the sale."

But Greif suspects THL may take a hard look at CKE's expenses.

"They're probably going to prune the locations and make some of the hard decisions that haven't been made up until this point," Greif said. "Ultimately, for them to make a buck, they're going to have to get same-store sales growth back on track through menu and service enhancements and that's one thing Carl's Jr. hasn't been able to do of late."

CKE has until April 6 to shop around for a better deal. But the deal would have to be very sweet: If it calls off the merger, CKE is on the hook for a $15.5 million termination fee to THL and up to $5 million of THL's costs.

"The M&A environment we have right now is probably not conducive to a bidding frenzy," Greif said.