

“Fairmont, executives buy Shari’s chain for \$60M”

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By Alan Liddle

Shari’s Management Corp., operator of 96 hexagonal shaped, 24-hour family restaurants in seven Western states, has been purchased by Anaheim, Calif. based **Fairmont Capital Inc.** and senior executives, including president Larry Curtis.

Curtis and Fairmont Capital president **Michael Gibbons** said the change in ownership would jump-start the stalled expansion plans of Shari’s Restaurants, which employs more than 4,000 people and reported 1998 sales of \$128 million. The Beaverton, Ore. based chain, which has a full-day average check of \$6.00, recently ended a two-year moratorium on growth by opening a new restaurant in Port Orchard, Wash. Shari’s could add another three to four restaurants in 1999, Gibbons said.

“The first part of our strategy is to get the chain growing at 10 to 15 units per year,” explained Gibbons, who said he has held interests in some restaurant companies in the past but never a controlling stake. “When we have the opportunity with Shari’s and when the [stock] market is in favor of restaurants, we’ll go public so we can accelerate growth.”

Larry Hatfield, Shari’s chairman, and John Elorriaga, retired chief executive of U.S. Bank sold their majority stake in the company to Gibbons’ privately held organization in late February. The selling price was “about \$60 million,” Gibbons said.

Gibbons said he had had his eye on Shari’s since 1989, when he helped Hatfield purchase the company from Utah-based StratAmerica Corp. “I’d classify it as one of the best-run family-style restaurant chains in America,” the investor said, adding, “They are highly focused on customer service and perform well, and it shows in their numbers.”

Shari’s Curtis said proprietary surveys show that 39 percent of the chain’s guests dine there once a week, and 69 percent eat at a Shari’s at least once a month.

Asked why Shari’s had put expansion on hold in recent years, Gibbons said Hatfield and Elorriaga “were taking a more conservative stance” after having more than tripled the size of the chain. “Once you have a nice business like that, you can become more interested in your golf game than building wealth,” he remarked. “Companies need forward momentum, and I think Larry knew that, which is why he and I got together and worked out a change in ownership”

As one component of its new expansion strategy, Shari’s Management Corp. will consider the acquisition of independent restaurants or small chains, Curtis and Gibbons said. Curtis acknowledged that such a move would mean an end to the company’s practice of opening only in six-sided buildings.

Sources at the chain long have maintained that hexagonal buildings offer a number of advantages over traditional box- or rectangle-shaped structures, including more window seats, lower interior noise levels and more efficient traffic patterns between the kitchen and server stations. The downside, Curtis indicated, “is that the design of our building is becoming expensive to build,” and these days “you can convert a restaurant for about a third of the cost of building it from the ground up.”

“Though we’d like to keep the [six-sided] shape, we’re going to try to reinvent the wheel so that the interior of a square box [building] gives us the advantages of a hexagon,” Curtis added.

A typical Shari’s restaurant takes up 3,900 square feet and seats about 130 people. Company officials said it was too early to tell how conversion practices might change those dimensions.

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Hatfield will remain on the board of directors at Shari’s Management Corp., which now operates 40 restaurants in Washington, 39 in Oregon, six in Idaho, five in Colorado, three in Wyoming, two in California and one in Nebraska.

Curtis said Shari’s initially would concentrate on in-filling existing markets and then possibly turn its attention to other nearby states, including Montana, South Dakota and Kansas. Gibbons indicated that Northern California and the state’s Central Valley are two areas likely to see a new concentration of Shari’s restaurants,

Known from the start for its unusual buildings and a policy of being open all day, every day, Shari’s was founded and designed by Ron Bergquist in Hermiston Ore., in 1978. The chain’s all-day menu features more than 150 breakfast, lunch and dinner items, such as omelets, hamburgers, milk shakes, chef’s salads and T-bone steaks.

Shari’s Restaurants does very little advertising, relying instead on word-of-mouth, Curtis said.

Gibbons has experience in acquiring medium-sized retail businesses, growing them and taking them public. He did that few years ago with the Fountain Valley, Calif.-based **Krause’s Sofa Bed Factory** retail chain.

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Note: Fairmont Capital, Inc. acquired Shari’s Management Corp. in February 1999. Michael Gibbons is a founder of Fairmont.