

# “Garden Fresh Ladles up Plan to Go Private by 2004”

By Amy Spector

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SAN DIEGO – In a move to keep salad-buffet operator **Garden Fresh Restaurant Corp.** from wilting in the public market, an investment group led by Anaheim, California-based financier **Fairmont Capital, Inc.** plans to take the company private by year-end.

The San Diego-based company, which trades in 97 locations in 15 states under the Souplantation and Sweet Tomatoes brands, first must receive clearance from shareholders and securities regulators before wrapping up the deal approved by its board in late September. Under the terms of the agreement, shareholders would be paid \$16.35 per share of common stock.

Although Fairmont Capital president **Michael Gibbons** declined to state the price tag for Garden Fresh, he was quoted in published reports as valuing the trade at between \$140 million and \$150 million. The Fairmont-led group would purchase the nearly 5.8 million shares of common stock as well as outstanding options, Gibbons said.

Fairmont Capital completed a similar restaurant deal two years ago, as one of three investors that took **Vicorp** out of public hands in 2001, eventually selling the company, parent of the Bakers Square and Village Inn chains, to Chicago-based Wind Point Partners in June.

The restaurant company currently in Fairmont Capital's investment portfolio is 98-unit **Shari's**, the Beaverton, Oregon-based family-dining chain located in the Pacific Northwest.

Gibbons declined to identify his investment partners in the Garden Fresh offer. But the release issued by Garden Fresh concerning the proposal stated, “Fairmont Capital has received written commitments from Fleet National Bank and Fleet Securities Inc. to fund the senior debt portion of the transaction and has received commitments from other financing sources.”

Morgan Keegan analyst Robert Derringer said he believed the deal was a good one. He noted that although Garden Fresh had been trading in the \$10 range, “its book value is \$14.07.” Since Wall Street learned of the proposal, the stock shot up to just under \$16, which even then is “slightly under five times” trailing cash flow, he said, noting, “That compares to the typical restaurant stock that trades at seven to 10 times [trailing cash flow].”

Garden Fresh, which turned 20 years old this year and has been trading publicly since May 1995, competes directly with Morgan Hill, California-based Fresh Choice, the 52-unit parent company of salad-buffet brands Fresh Choice and Zoopa. And while Derringer asserted that Garden Fresh “consistently outperforms” Fresh Choice, he cautioned that contenders in the buffet segment “operate on razor-thin margins. Same-store sales are driven more by price than by traffic. It's a precarious business model.”

Garden Fresh executives did not return phone calls by press time, but the company's latest quarterly securities filings for the nine months ended June 30 painted the scenario of shrinking margins and declining customer counts described by Derringer. The costs of sales, labor, occupancy and general and administrative services all had grown since the same period in June 2002, while customer counts decreased 2.8 percent year over year, even though a 3.6-percent price hike pushed same-store sales ahead by 0.8 percent.

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In addition, the company’s Souplantation chain, which operates 40 units in California, could face further cost spikes following legislation signed by the governor to mandate health care for full-time employees beginning in 2006.

“For years operating in California has been problematic,” said Derringer, who is based in Nashville, Tenn. He said the state’s liberal policies and tendency “to push a lot of costs down on operators make the margins much thinner” than those in other states.

Randall Hiatt, president of Fessel International, based in Costa Mesa, California, agreed that Garden Fresh is “heavily exposed” to the higher cost of operating in California. But he also noted that “they do have out-of-state units. They have a second commissary in Georgia. So they have a little bit of a balance.”

With the Fairmont Capital merger announced just as Garden Fresh was closing the books on its September-ended fourth quarter and year-end financial statements, both parties were silent on how Garden Fresh performed in the July-to-September period. But Hiatt’s research indicated “they have had declining sales,” he said.

He pointed to the increased availability of salads at quick-service outlets and asked, “I wonder how many people are going to Garden Fresh when McDonald’s has 16 types of greens in its salads and sweet grape tomatoes, plus Paul Newman dressings.”

But Fairmont Capital’s managing director **Timothy Greenleaf** considered the quick-service salad foray a windfall for Garden Fresh.

“The good news is that [quick-service operators] are pounding the airwaves” about their new salad offerings, he said. “I couldn’t be happier about that.” He suggested that established salad purveyors benefit because the fast-food advertising increases consumer demand for their products.

Gibbons said his investment group chose to buy Garden Fresh because “it’s a well-run company. In the salad bar, casual-dining segment, it’s a good concept, and they implement it well.” He added, “as a restaurant concept, it is very much in focus with what consumers are looking for: healthy, creative eating. You mix your own salad; you mix your own soups.”

Garden Fresh president and chief executive Michael Mack said to Nation’s Restaurant News in 2001 that his restaurants appealed to most age groups except the 18- to 25-year-old male and that his clientele skewed toward educated women. That shrinking teen male population recently has caused San Diego-based quick-service chain Jack in the Box to overhaul its brand, refocusing on women and older men.

Gibbons, when asked why his company offered a near 50-percent premium to Garden Fresh’s share value at the time the deal was announced, said: “It was a contribution of things. We have faith in the business and where it’s going. It’s a win-win structure that’s very good for stockholders and for us in the long run.”

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**Note:** Fairmont Capital, Inc. and its co-investors acquired Garden Fresh Restaurant Corp. in March 2004, VICORP Restaurant Corp. in May 2001 and Shari’s Management Corp. in February 1999. Michael Gibbons and Timothy Greenleaf are principals at Fairmont.