

THE ARIZONA REPUBLIC



P.F. Chang's sale a blow to Arizona business

SCOTTSDALE – May 2, 2012. The announcement that P.F. Chang's China Bistro Inc. will go private in a \$1.1 billion acquisition by a New York investment firm was the second hit to metro Phoenix's corporate headquarters list this week.

If the deal goes through, the chain of Asian-themed restaurants no longer will operate as an independent firm or one owned by public stockholders. P.F. Chang's board has sanctioned the transaction, which was announced Tuesday. But shareholders will need to agree to sell at least about 83 percent of the company's stock to acquirer Centerbridge Partners, a New York investment firm.

The transaction also is subject to approvals by the Federal Trade Commission, the companies announced.

On Monday, Scottsdale-based RSC Holdings was merged into United Rentals of Connecticut in an unrelated transaction. A spokesman for United Rentals said the economic impact of the previously announced deal, including changes in local employment, haven't been determined.

Other deals are possible. For example, Tempe-based US Airways has expressed interest in merging with American Airlines in a transaction that could result in the combined firm locating to American's home in Fort Worth, Texas. Even Freeport-McMoRan Copper & Gold, Arizona's most profitable company, has been rumored to be an acquisition target.

US Airways and Freeport-McMoRan both rank among the state's 20 largest corporate and non-profit employers, according to a study by The Arizona Republic.

Excluding P.F. Chang's and RSC Holdings, the state now counts only 41 public companies with local headquarters, according to a separate Republic analysis, down from more than 70 five years ago and more than 100 in the mid-1990s.

"For a very large city with a very large population, we have an inordinate number of companies that operate here but aren't headquartered here," said Harry Papp, managing partner at Phoenix investment firm L. Roy Papp & Associates.

P.F. Chang's ranks as the 84th largest employer in Arizona with more than 1,600 employees here, according to The Republic. Its stock-market capitalization of \$1 billion puts it among the state's most highly valued corporations.

"We are excited about this transaction with Centerbridge, as it recognizes the value of P.F. Chang's highly respected brands and talented employees, while providing our stockholders with an immediate and substantial cash premium for their investment," said Rick Federico, the company's chairman and CEO, in a statement.

"We are confident that being a private company will provide us with greater flexibility to focus on our long-term strategic plan of elevating our guest experience, enhancing our value proposition, growing traffic and improving the performance of our brands."

Company officials declined to comment further.

P.F. Chang's has been the focus of industry speculation over the past year that it may sell to a private-equity investor.

In October, Federico acknowledged that the company had been struggling with falling sales and customers' perceptions that its menus were overpriced. But he said the company preferred to solve the problems on its own instead of seeking a buyer or outside investor.

Separately, the company on Tuesday reported a disappointing first-quarter financial result, with net income falling to \$6.3 million or 30 cents a share from \$10.6 million or 46 cents a share one year earlier. Total revenue rose slightly to \$318.9 million in the latest quarter from \$317.4 million in the first quarter of 2011, but comparable-store sales dipped.

Stock-market analysts tracked by Zacks Investment Research were expecting a profit of 36 cents a share on average for the company.

P.F. Chang's can solicit better offers through May. However, Stephen Anderson, an analyst with investment firm Miller Tabak, said in a widely quoted note to clients that he didn't anticipate other suitors.

While the employment impact hasn't been announced, the Valley took a prestige blow from both announcements.

"Landing a corporate headquarters is the crown jewel of economic-development programs," said John Boyd Jr. of the Boyd Co., a site-selection consulting service in Princeton, N.J.

Losses can be more painful. It's not just employee counts that matter when companies change headquarters.

"You get a lot more when the strategic thinkers and the investor-relations, finance, human-resources and other top corporate people are in your community," said Barbara Barrett, the new interim president of the Thunderbird School of Global Management in Glendale.

In an interview Monday, she called the corporate headquarters of Freeport-McMoRan and US Airways "among Arizona's greatest assets."

Corporate headquarters also bring high-salaried executives to an area and boost business for retailers and suppliers as well as service providers such as law and accounting firms. When there are people entering or leaving the local market, that can affect real-estate prices. Museums, foodbanks and a slew of other non-profit groups also depend on corporate donations.

"Employees who live here go to the opera or ballet and use the local services," said Papp, who sits on the boards of the Phoenix Zoo, the Arizona State University Foundation and other non-profits. Acquiring companies often are generous to philanthropy but typically not as generous as corporations based here, he said.

Though the Valley appears to have taken a step backward in terms of the P.F. Chang's and RSC Holdings developments, Boyd said he still rates the area favorably for attracting and incubating businesses. Among the factors he cites include moderate corporate and personal income-tax rates, affordable real estate and a competent labor pool.

One plus for Arizona, he said, is a good location for international trade on a major highway route running from Mexico to Canada. Another plus: the potential to lure companies from California, which Boyd describes as having a relatively unfriendly business climate.

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