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BUSINESS

SBE Entertainment Concludes Morgans Hotel Acquisition

Deal that combines two boutique hotel operators has an enterprise value of \$805 million

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Morgans Hotel Group's Delano South Beach hotel in Miami Beach *PHOTO: MORGANS HOTEL GROUP*

SBE Entertainment Group completed its acquisition of Morgans Hotel Group Co. on Wednesday, bringing together two boutique hotel operators in a deal with an enterprise value of \$805 million.

The combined company will operate 22 hotels with nearly 7,000 rooms and five brands, including Morgans' Delano and Mondrian brands, according to SBE. It will operate food and nightlife divisions, such as the Katsuya Japanese restaurants and Hyde nightclubs. The new company will also own Morgans' Delano Hotel in Miami Beach and New York City's Hudson Hotel.

As part of the acquisition, Ron Burkle's private-equity firm Yucaipa Companies converted preferred shares in Morgans into a 25% equity interest in SBE, and Mr. Burkle will have a board seat. Real-estate investment firm Cain Hoy Enterprises also has a 25% equity stake in SBE and a board seat.

Sam Nazarian, founder and chief executive of the Los Angeles-based company, holds the other 50% stake.

Yucaipa and Cain Hoy together also own \$150 million of newly issued preferred shares in SBE.

SBE's takeover of Morgans concludes a nearly two-year pursuit of the New York-based hotel operator. Initial talks to merge the companies collapsed last year. Mr. Nazarian initially wanted to take his company public through the acquisition of Morgans, which traded on the Nasdaq Market.

Under the deal just concluded, SBE is taking Morgans private. From a financial perspective, it was worth the wait for Mr. Nazarian. He paid about a third the price of the price for Morgans compared with where the shares were trading in 2015 when the merger talks began. SBE is paying Morgans stockholders \$2.25 a share.

The deal also marks the end of Morgans as an independent company. Founded in the 1980s by nightclub impresarios Ian Schrager and Steve Rubell, Morgans helped usher in the boutique hotel craze with their bustling public spaces, stylish interiors and fashionable crowds.

But the company has suffered through hard times in recent years, hurt by frequent turnover in the top executive ranks and feuding among board members. As major hotel brands began to offer their own boutique properties, and more lifestyle or boutique brands sprang up, Morgans' business suffered.

SBE said it is planning to open a Redbury brand hotel in New York in the coming months, and an SLS brand hotel in Miami. Additional hotels are slated to open in Qatar, Seattle and South Florida next year.

Morgan Stanley advised Morgans and Houlihan Lokey Inc. advised SBE on the transaction.

<http://www.wsj.com/articles/sbe-entertainment-concludes-morgans-hotel-acquisition-1480612518>