Selling **Restaurants**

Top Ten Steps to Improve Returns

Presentation by

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Discussion Goals

- Don’t bore you
- Highlight some key issues about selling private businesses
- Answer your questions
- Give you some ideas on where to look for assistance.

Why Restaurants?

- There are lots of restaurants for sale, ranging from coffee shops and cafes to fine dining establishments. Since there are so many restaurants for sale, you can be sure that some of the business opportunities before you will involve restaurants. The restaurant industry has enjoyed fantastic growth in the last two decades.

- Increasingly, people are spending larger and larger percentages of their respective food budgets dining out at restaurants. This fact is no small factor when it comes time to buy a business. All business owners want to see growth as well as the potential for ample future growth. The restaurant industry has this potential in droves!

- Restaurants are popular with buyers seeking to buy a lifestyle job.

Selling a Restaurant
Top Ten List

1. Get the Listing
2. Nail down the goodwill
3. Assess the Assets
4. Learn about the business
5. Determine Value
6. Manage Expectations
7. Keep it confidential
8. Give the Buyer what they need
9. Keep the landlord happy
10. Educate yourself

Types of Restaurants

- Fast Food
- Quick/Casual
- Family - Dennys
- Dinner - Outback, Applebees, Morton's
- Fine Dining
- Ethnic
- Pubs and Bars
- Entertainment – Hard Rock, Planet Hollywood
- Nightclubs
- Catering

Get the Listing

- Getting quality listings is important, and there are many methods used, including cold calls, advertising, direct mail, etc.

- Networking is probably the very best ways of meeting restaurant owners. So where do you meet these people?

Get the Listing

- Ask to meet the owner while having dinner at their restaurant.
- Trade Associations
- Join industry associations and attend their meetings/conventions
- Network with industry specialists – service providers, equipment dealers, food suppliers.
- Other ideas?

Goodwill

Price v. Value

- Asking Price – What the Seller wants
- Selling Price – What the Seller gets
- Value – The highest price the buyer is willing to pay and the lowest price the seller is willing to accept

Nail down the goodwill

- The difference between selling real estate and selling a business is goodwill. A business broker's job is to maximize goodwill. However, it is goodwill that is the most subjective part of a business' value. To guide you in determining the value of good will, you need to compare the business to industry norms and consider principals of valuation.

Nail down the goodwill

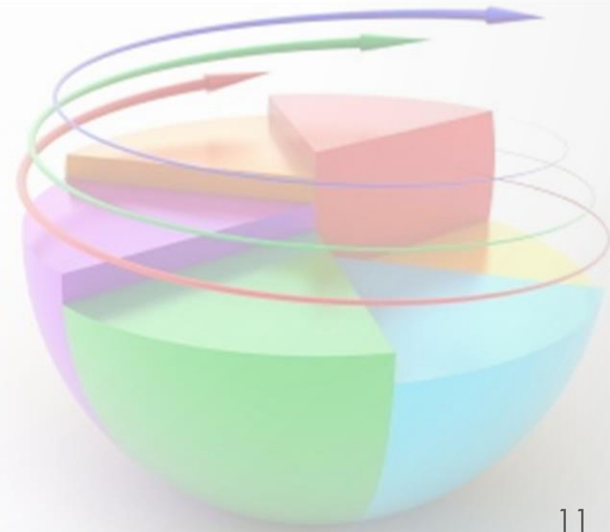
- Industry Norms – Independent
  - Costs of Goods – 32%
  - Payroll/Benefits - 32%
  - Other expenses – 20%
  - Rent – 6%
  - Cash Flow/Profit – 10%

- Industry Norms - Chain
  - Costs of Goods – 30% - Better Purchasing
  - Payroll/Benefits - 30% - Better Controls
  - Other expenses –18% - Less Costs of Capit
  - Rent – 5%
  - Cash Flow/Profit – 17%

Goodwill

Industry Benchmarks

- Owner Salary - $40-50,000
- Cash Flow – 10-15%
- Rent – Full Service – 5-7%
- Rent plus debt service – 10-15%
- Ration Debt to Cash Flow – 75%
- Food Costs – 30%
- Payroll – 30%
- Refurbish – every 5 years
- Renovate – every 10 years



Goodwill

Factors that determine value

- Potential for growth
- Potential improvements to cash flow
- Condition of Improvements
- Licenses
- Competition – most customers come from a 2 mile radius
- Adaptability of the concept

Goodwill

Factors that determine value

- New business – no history of profitability
- No cash flow – discount for a failed concept
- Short Lease – location is important to success
- High Value/Low Sales – common in resort areas
- Tired Concept – discount for renovations
- Destination location – Most business comes from the local area, even chains are clustering together.
- Historic building – hard to renovate
- Excessive rent
- Potential – no value

Assess the Assets

- More upscale the Restaurant, more pricey the costs to create.
- Landlord is King – MUST carefully review the lease. Landlord usually owns all the improvements and usually covenants for change of ownership. Need to investigate the history of rent arrears, if any.
- Furniture, Fixtures are usually tied to the concept.

Assess the Assets

- In a business where there is poor cash flow, the best indicator of value may be costs to create – which is greater than liquidated value.

Learn about the business

- The first question to ask yourself, is "am I qualified to take this listing?" – IBBA is the best source of education.
- Visit the business before meeting with the owner
  - How is the service?
  - Condition of the premises and improvements?
  - Style and quality of service?
  - Is the food any good?
  - Does the concept seem to work?
  - Potential for improvement?
- Who is the local competition – are their parking lots full?
- Tour the Neighborhood.
- Determine if the operation is up to code.
- Health violations?
- Interview the Owner, and if possible, the front of house manager.

Determine Value

- Not going to cover principals of business valuation such as recasting, methodologies, etc.

- Likely the best method for valuing a restaurant is the Direct Market Approach. With the internet and data sources such as Pratt's State and Bizcomps, it is possible to obtain fairly reliable sales data, particularly as there are a large number of restaurants traded every year.
  - Most local data is the best data
  - In the application of the Market Approach, the most useful methods are the Multiple of Sales Method and the Multiple of Cash Flow Method.

Determine Value

- Asset Based Approach is not particularly useful for restaurants as it fails to consider either the top or bottom line, and most successful restaurants are worth considerably more than the value of their assets. However, if a restaurant is performing badly, the Asset Based Approach may be useful in marketing the restaurant on a “costs to create” basis.

- The Income Approach is probably the least reliable way to value a restaurant as past performance is no guarantee of what will happen in the future. Menus, concepts and trends all change, and most restaurants need to keep on top of market tastes in order to stay relevant. For a restaurant,”p usually equates to “brand new business”. The average restaurant buyer is purchasing a job and a lifestyle, not necessarily a return on investment.

Manage Expectations

- No matter how you operate your office, it is essential that the seller is provided a realistic indication of the VALUE of the business. Failing to determine value almost always leads to frustration.
- Once engaged, stay in regular contact with the seller.
- Educate the seller – explain the process.
- Listen to the Seller and the Buyer – What do they need? What do they expect from you?

Keep it Confidential

There are many reasons for keeping the sale of a business confidential. For a restaurant, there are particular reasons:

- Keeping staff, particularly key kitchen staff
- Maintaining customer loyalty
- Protecting the concept

Keep it Confidential

Protect Confidentiality by:

- Blind profiles/teasers
- Non-disclosure agreements and highlighting to buyers that they are not to discuss a sale with staff or directly with the owner.
- Only show the restaurant when closed – the buyer can easily visit the restaurant as a “secret shopper” on her own.

Give the Buyer what they need

Of particular concern to Restaurant Buyers are:

- Details of the lease
- Particulars of equipment financing
- A summary of creditors and the nature of any security pledged
- History of health inspections and any citations
- Accurate financial reports
- If a chain or franchise, a summary of any franchisee obligations and particulars of any transfer requirements
- Copies of required licenses, including any transfer restrictions

Give the Buyer what they need

- Current sales figures
- List of leased equipment
- Copy of the menu
- Neighborhood information

Keep the Landlord Happy

- Location is absolutely critical in the restaurant business. People will, after all, eat mediocre or even sub par food from a restaurant that is in a wonderful location. However, people will certainly not travel miles and miles for mediocre food.
- Most restaurants are in leased premises, and many leases contain provisions regarding the need for Landlord consent for the transfer of control of a business.
- Don’t leave dealing with the Landlord to the end of the transaction!
- Due to the high failure rate of restaurants, many landlords require personal indemnities from restaurant owners – this issue must be canvassed with the landlord.
- Be aware of demolition and renovation clauses in the lease, particular if the restaurant is located in a shopping mall or a “trendy” area.

Educate Yourself

- IBBA Course “Selling Restaurants”
- IBBA Courses/Conventions
- Hospitality Industry courses and conventions

Thank **You!**

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