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Moving on: Exit strategy mastery for QSR owners

Before embarking on a liquidity path for your QSR, it's critically important that restaurant operators spend enough time preparing before the process starts. It all begins with the selection of and alignment with a business strategy. Next, operators must ensure they and their brands are prepared for sale. Finally, it all comes down to overall execution of the plan, since even the best made plans are worthless without first-rate enactment.

Here then, are some of the things you need to know about each step, along with some notes about real estate involved in the transaction and transferal of restaurant responsibilities to the new leadership.

Business strategy

When it comes to business strategy, operators must first understand what the key stakeholders want to accomplish. Then, considering that end goal as the starting point, work backward.

Depending on the ownership and capital structure, different variables will drive the steps needed to achieve the desired outcome. Some stakeholders' goals align, while sometimes they do not. Likewise, sometimes stakeholders agree on macro issues, but disagree on execution.

Among the most important areas to address are:

- In the case of a restaurant sale, identify whether it will be an outright sale of the business.
- Determine whether the current operator is selling, retiring, moving on or staying with the brand in some capacity.
- Identify whether the sale is taking place with a related party.
- Determine whether it is a partial liquidity event, where operators transition the restaurant to management or the next generation.
- Ascertain whether the restaurant brand's owner/operator seeks a partial liquidity event that will likely include new lending partners and outside investors.
- Define whether this business transition part of a long-contemplated plan or if the transaction and liquidity event require strict confidentiality.
- If real estate is involved, determine whether you can create value by exercising purchase options on leased sites and whether these should be completed before the process starts, in earnest.

The bottom line with all these provisions is that leadership must have the internal discussions needed to determine these critical factors, while gaining alignment and doing all the work to prepare accordingly before approaching the market.

Preparation phase

Restaurant operation is an all-encompassing venture. Owners spend so much time ensuring outstanding customer service and guest experience that some of the back-office items can be overlooked.
But, if an operator is considering a change of control or other liquidity event, he or she must know that outside parties, including buyers, franchisors, investors and lenders, will all be examining your business with a skeptical eye.

Review and clean up the books and records to prepare for outside scrutiny. If your brand performs annual external audits or reviews, be sure that is available, as well.

Smoothing out the potential bumps ahead of time will help allay any questions about the sale's financial integrity, which ultimately can cause these types of transactions to drag on and potentially drain away its full potential value. So review the brand's financial information, contracts, leases and other related documents before process starts. Detail and explain those one-time, non-recurring or key operating factors that effect performance and work to anticipate any potential questions and develop answers.

Often too, buyers, lenders or investors are requiring a detailed quality of earnings reports, which are like mini audits, and have become more standard in most restaurant and franchise transactions. If, as the operator, you are uncomfortable in this role, hire competent help and do not assume the company's accountant can produce the information needed to present the company in the most favorable light.

Real estate

In some cases, a significant portion of a restaurant operators' equity is tied up in real estate, posing questions about what leadership does with the real estate involved in the property is owned. Take the time to carefully consider all options here, including the sale-leaseback market.

Many buyers also prefer to acquire both the business and its underlying real estate, and will often pay a premium to control both. Real estate can also allow buyers to pay more due to longer loan amortization periods available under common control ownership loan structures.

Considering all of the above, owners should engage a competent real estate attorney and have a new lease properly drafted for the incoming buyer if they intend to hold on to any real estate.

Execution strategy

Franchised business operators should expect franchisors to have a say in the overall decision process when the event is executed. While the operator can select a buyer or partner, franchisor approval is necessary to consummate the transaction.

The operator should understand and manage the franchisor's approval process, while also knowing the financial and operational approval requirements before moving forward with any buyer. Additionally, franchisors are increasingly requiring more and more remodeling and investment commitments to effectuate a transfer. It is important to understand these requirements and standards and articulate these to a buyer or partner.

Internal transfers to next generation or management team

If your exit is part of a transition to the next generation of ownership and does not involve changes to the capital structure, then managing the relationship with your existing lenders is critical. Financial institutions do not like surprises, so it's important to communicate early and often.

In most cases, these stakeholders will be supportive if they understand and have been part of the transition plan. In addition, leases, contracts and related documents should be fully reviewed for potential red flags such as change in control provisions.

In most cases for an inside transaction to management or the next generation, early and clear communication should produce a positive result. If valuation is a question, obtain reasonable consensus to ensure no macro disconnect. Decide early on who within the organization should be party to a transaction and make sure that any key personnel are not surprised by the transition. In fact, it can sometimes be helpful to create incentives for critical members of a team toward the successful completion of a transaction.

In the final analysis, there is no one-size-fits-all strategy in regard to exit strategies for restaurant operators. However, understanding your alternatives and the transaction process is critical toward achieving your goals and a successful conclusion.