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A Financial Guide to Buying and Selling Restaurants



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There are a lot of moving parts to the buying and selling of restaurants.

There are over a million restaurants in the U.S. and sales are projected to reach \$863 billion this year—up from \$590 billion less than a decade ago, according to the National Restaurant Association. Restaurants are increasingly becoming a staple in consumers' lives, elevating their importance in communities across the country. With that significant of an impact, there's a lot on the line when it comes to buying and selling establishments—making it critical to have a plan in place as early as possible.

Hire a financial adviser with restaurant industry experience

Hire a financial adviser with experience in the buying and selling of restaurants to ensure everything is prepared correctly and efficiently. Buyers will have an additional level of review by a credit source, so both personal and business financial affairs should be in order well before beginning the process.

Time kills deals, and inaccurate financial statements are one of the most inefficient and unproductive aspects of any restaurant transaction. Every aspect of a financial statement is subject to a thorough review, so it's important to have an experienced financial adviser review your statements. Also, without well-prepared and accurate statements, the value of your sale will suffer. Buyers will quickly reduce offering prices upon the first hint of financial inconsistencies. Professionally prepared and compiled data is an investment and will pay for itself many times over, so make it a priority.

Additionally, a seasoned financial adviser will take the extra work off your plate while you continue to run the daily operations of your business. The last thing a buyer or capital provider wants to see during that time is declining same store sales or profitability.

Get approval from the franchisor

If the restaurant is part of a franchise system, both the buyer and seller will need to obtain approval from the franchisor to enter and exit the system, respectively. Buyers should be prepared to present their operational partners and demonstrate a strong financial commitment to meeting the franchisor's requirements for development, remodels, and other facilities upgrades. In most franchise systems these days, buyers are usually acquiring more than just restaurants. They are also committing to future investments as required by the franchisor. Many franchise systems have put a lot of resources into franchisee recruitment and only the top operators who are well-capitalized are accepted into the system—so buyers should make sure they're one of them. Sellers should ensure they're transitioning ownership to a buyer that has been approved or is in the process of being approved by the franchisor.

Review all existing contracts

Sellers should review any contract associated with the business and be ready to share with the potential buyer. Pay particular attention to lease agreements to ensure there is enough term on the lease so the restaurant will be around for the foreseeable future. Negotiate renewal options or extensions if there are just a few years left on a lease.

Ensure that the facilities are in good condition

If you're getting ready to sell a restaurant, you will want to make sure that all equipment, technology, roofs, and HVAC units are in proper working order. Buyers will usually inspect the restaurants prior to closing to ensure these items are in good condition. If not, buyers will ask for a credit off the purchase price. It is a good idea to understand the condition of your physical assets to avoid any surprises down the road.

Inform all parties involved in the business

When there are multiple partners in a business, it becomes critical to determine which parties need to be informed of a potential sale and when. In some transactions, only the top two or three are privy to the potential deal until a certain point. In some cases, minority partners may need to be

bought out in order to gain majority control and proceed with the transaction. In those instances, consult legal counsel.

Have a transition plan for employees

Not to be overlooked, buyers should have a plan in place for key employees acquired through the transaction. In a restaurant, people are as important as the product you sell, and they're very difficult to replace. Find a way to keep and continue to grow a strong team, such as through incentives like bonuses and paid time off.

In summary, there are a lot of moving parts to the buying and selling of restaurants. It can take nine months to a year to prepare—or sometimes longer. The better shape these items are in, the smoother and quicker the transaction will be.

Carty Davis is a partner at C Squared Advisors, an independent investment bank that provides financial and transaction advisory services to multi-unit owners in the restaurant and franchise industries. Carty has initiated and managed hundreds of transactions involving thousands of restaurant locations for brands like Wendy's, Burger King, Arby's, TGI Fridays, Applebee's, IHOP, and more. His expertise ranges from large refranchising programs to small equity raises for emerging concepts.