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## **The restaurant broker can structure a deal that is a win-win for both the seller and the buyer - by Dennis Serpone**

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Much like the stock market, for every seller of stock in a company there's a buyer. The seller makes a calculated decision that his stock is either a loser or, if it's profitable, it can't possibly go any higher. The buyer on the other hand sees that same stock as undervalued and definitely worth buying because he's calculated that it 'absolutely' is going to continue to go up. You call your stock broker and explain to him why you think it's time to bail out of it. and so you do. The broker then calls his clients and tells them of the wonderful opportunity has become available to buy that same stock. Both parties get what they want...a win-win.

In the restaurant industry, it's exactly the same. A buyer contacts a restaurant specialist explaining that he'd like to buy a restaurant (it could be a full-service, fast food, pub, coffee shop, convenience store, etc), he explains that he has 'x' amount of money to invest and he has a certain amount of experience. The restaurant broker then attempts to match him with what is presently available...or simply adds him to his 'watch list' to be notified when an appropriate business becomes available. The buyer is sure that if he finds the 'right' place...success is assured.

On the other hand, the restaurant broker receives calls daily from owners who need to sell their restaurant. Whether it's financial problems, partnership disputes, failed lease negotiations, staff problems, or the desire to retire, the restaurant specialist is his solution.

The difference between the stock broker and the restaurant broker is that the restaurant broker can evaluate the various aspects of what is being sold, decide if the problems translate into an opportunity for a buyer, but more importantly, based on the facets of the deal, determine a price that represents a fair market value. In addition, by being conversant in the financial aspects of the food and beverage industry, the restaurant broker can structure a deal that is a win-win for both the seller and the eventual buyer.

In regards to the buyer, the restaurant broker has the unique opportunity to literally change the lifestyle of a buyer. By bringing a business, or franchise, to a buyer that closely matches his experience and financial resources, he makes it possible for the buyer to make more money than he

has ever made in his lifetime. On the other hand, that success is grounded in the commitment that the buyer makes to his business, tempered by support of his family and the machinations of the economy. Suffice to say that a conscientious buyer can create the conditions for a Mercedes-Benz, a nice home, and private schools for his children or the unspeakable could happen where he loses everything.

Every deal has to be structured around the value of the business. From a strictly arithmetic viewpoint one can use a multiple of the EBITDA -Earnings Before Interest, Taxes, Depreciation and Amortization. In plain language, it's roughly the amount of cash a business generates in a year through operations. To find the value of a restaurant using this method, you need good accounting records to demonstrate the EBITDA. The multiple that you would apply to a restaurant is typically based on the risk, the likelihood of the business's ability to grow, and the desirability of the restaurant itself. A small, independent concept on a side street may only garner a 1 or 2 times multiple if relatively unknown whereas a large, busy franchised concept, in a high traffic location may get the 4 - 6 times multiple or more.

The caveat to this method of determining value has to be tempered by two 'KEY' factors...competition and availability of key personnel. In Massachusetts there's another major factor affecting value...the actions of our non-representatives...the buffoons in our legislature. From the governor down, they're catering to the few activist donors who pull the strings of government. They're killing the lifeblood of our economy by demanding higher and higher minimum wages, which can decimate the bottom line, by also directly affecting various taxes and insurances tied to payroll. It's been shown in other states that less people end up working resulting in more people on welfare. With minimum wage proposed to grow to \$15 per hour, with tipped employees having their minimum wage pegged at \$9 per hour, and with mandated paid family leave, essentially mandating all employers and employees buy short-term disability insurance, more and more restaurants will be hitting the market with market values PLUMMETTING.

These are wonderful times for the diner with more and more choices but at higher and higher operating costs passed on to him. God bless them all.

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