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Analyzing the return on investment leads to increased activity among restaurant sellers - by Dennis Serpone

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Dennis Serpone

An increase in operating costs, supply chain concerns, and the ongoing struggle of maintaining a consistent workforce has caused many owners of food and liquor businesses to consider the possibility of selling. This is certainly why we see so many restaurants, both big and small, on the market.

In order to more clearly view the movement of the restaurant industry, each segment should be looked at separately. The pressure has never been greater for the marginal independent operator, but the successful chain operators feel some pain also as evidenced by the consolidation of legacy chains.

The market has been very active over the past couple of years with some of the more well-known regional chains spinning off their under-performing units...did you ever expect to see a closed McDonalds? Some of the mom and pop operators have been unable to cope with the rising costs of operation and have either sold or simply created a deal with the landlord to get out of a lease, sold off their equipment, and moved on.

It has always been said that if you can generate cash flow, you can be successful. Well, that's not the case right now. There are plenty of restaurants that are 'churning' dollars but there's little or no profit at the end of the year. If you look closely you can see where the restaurant operators are 'between a rock and a hard place'. They have a significant investment to recover, they need to keep their staff busy, they need to keep the seats full, and they need to pay their bills. Most independent restaurants run on a very small margin...obviously, this depends on the specific type of restaurant, but generally as low as 7% of sales to a high of 20%.

However, we recently sold a pizzeria doing \$60,000 per week with the seller netting almost \$500,000 per year. Our largest sale so far this year is a fast casual operation, without liquor, doing \$100,000 per week, netting \$1.5 million per year. These examples are the exceptions.

Most food and beverage operations where the owner is actively hands-on, all things being equal, can increase net profit by getting more customers and by getting more out of them. What does that mean? It means you have to find a way to attract 'new' customers and make it easy for them to spend more than they expected. Isn't that true today? When was the last time that you were out to lunch or dinner, alone or with family and friends that the bill wasn't significantly higher than you anticipated?

Subsequently, the customer is going out to full-service restaurants less frequently and/or spending less money.

With all these factors, restaurant owners are evaluating their options...should they continue to struggle or should they sell. In the case where they decide to sell, they have another decision...should they try to sell on their own or should they hire a broker. For those that decide to hire a broker, they have to decide whether to give it to their good customer who sell houses or to a

commercial broker who is most comfortable selling office buildings or should they hire a restaurant specialist. At some point, they realize that food and liquor businesses are a very different commodity. More importantly, typically the seller has to provide the buyer with a first or second mortgage. The average deal requires a cash down payment of approximately one-third to half of the sale price with the seller holding the paper for the balance over a five- to seven-year term with prevailing interest rates. However, in the event that a deal qualifies for SBA financing, the cash down payment from the seller will be less.

For the successful, seasoned operator, this is a great time to add new locations. Whether buying an existing food operation or leasing a 'vanilla box' in one of the many mixed-use lifestyle centers being built, this is a great time to expand. Multi-unit operators are selling off underperforming units and taking advantage of the triple-A locations and facilities in the new lifestyle centers.

For some operators these are the worst of times and for others this is the best of times. As long as people need to eat and people need to be entertained, food and liquor businesses will always survive, the only thing that changes is the face of the operator and the size of the bottom line.

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