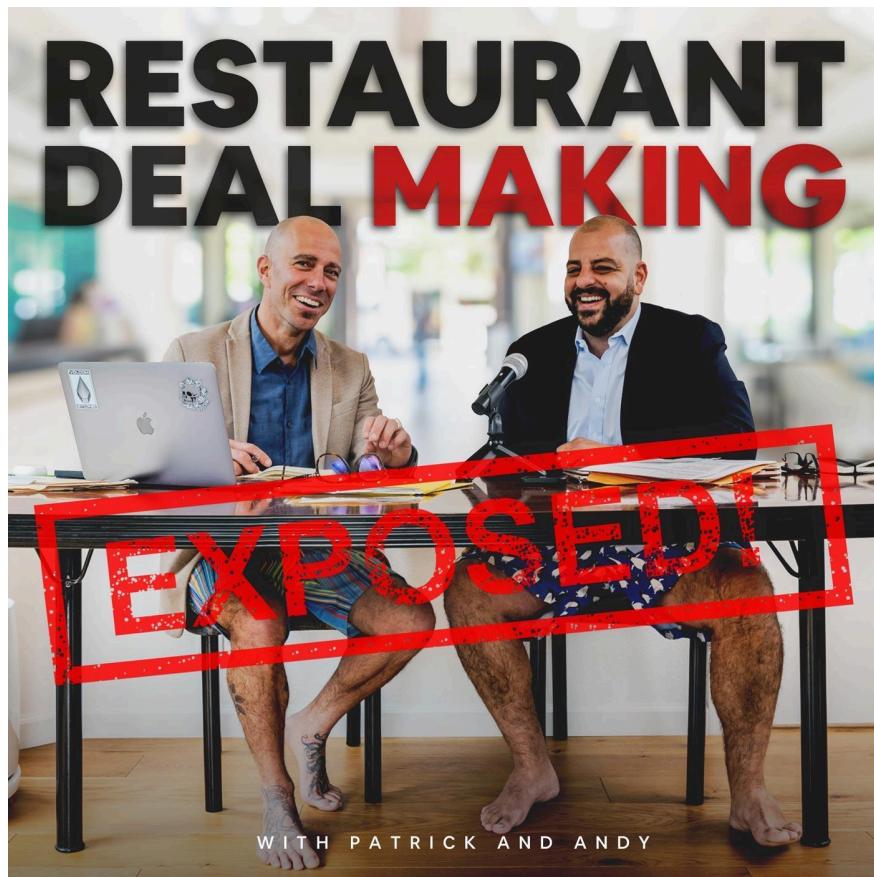


## Ep #44: The Right Time to Sell



## Full Episode Transcript

With Your Hosts

Patrick Totah and Andy Mirabell

[Restaurant Deal Making EXPOSED! with Patrick and Andy](#)

## Ep #44: The Right Time to Sell

Welcome to *Restaurant Deal Making EXPOSED!*, the only show that equips you with everything you need to know about restaurant transactions. In this show, we tell you all about how to make the sale or purchase of your restaurant not just possible, but successful. Now, here are your hosts, ex-restaurateurs, and seasoned brokers, Patrick Totah and Andy Mirabell.

Andy: Welcome back to another episode of *Restaurant Deal Making EXPOSED!* I'm Andy. I'm here with Patrick. This episode is The Right Time to Sell. When is the right time to put your restaurant or bar on the market to sell? Every restaurant owner eventually asks the same question: When's the right time to sell? The truth is there's no perfect answer. Some owners wait too long, others move too soon, and both can end up leaving money on the table.

Timing your sale is one of the most important parts of maximizing value. You've got to look at a few key things: your lease term, clean tax returns, financial records, consistent profitability, and whether the business is trending in the right direction. Ideally, you should start thinking about a sale 6 to 18 months in advance, when the business is still healthy and performing well. The worst time to sell is when you're in crisis mode, when your sales are down, you're burned out, or you just want out.

So, I think that sums it up pretty darn good, Patrick. Can we end the episode there?

Patrick: The quickest episode ever.

Andy: One of the big questions here is, do we sell a business? Do you sell a business when you, the owner is ready, or do you sell the business when the business is ready to be sold?

So, there's a lot of different things that come into play when you're selling your business. Emotions can be one of them, and emotions often drive many owners to sell their business or want to sell their business for reasons of being burnt out, they're tired, a partnership dispute, maybe they're relocating out of state, health, retirement. There's a lot of reasons. But it's much better to posture yourself to

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sell before you get to those milestones where you're just burnt out, or you have a health issue, or whatnot.

Waiting until you need to sell often means your financial performance or the business's performance has already begun to slip. So, that also is a time that would not be a good time to sell your business or list it. Another time that we would not recommend you putting your business on the market is when your profits are dropping. It will instantly devalue the business.

Patrick: I would argue, let me just jump in real quick, it's always the right time to sell. It just depends on what your strategy is, right? So, if you want to sell your business and you're looking to maximize the profitability on selling, then obviously, yes, you want to do it when you are at the peak of your revenue, you're still engaged in the business, and the sales are still trending at least equal or up, right? You can always sell another kind of business. You just may not get the price that you want.

Andy: Thanks for the clarification. I'm not trying to minimize life events, right? So if you're sick, you need to retire, you have whatever all those other things that we listed before, that might be the right time for you to sell, but it may not equate to the most money or value for your business, right?

Patrick: Yeah, and your time and effort over the years. Absolutely.

Andy: Yes. So, I think in summary on this little detail here is that the best time to sell is when your business still has energy, growth, and it's not tired or outdated or underperforming, right?

Patrick: Absolutely. So, I think one of the most important factors in when you are selling is your financial readiness. I prefer to work with people who are like kind of looking down the road a little bit and want to sell their business, and we can kind of work towards selling, making sure that their sales are steady or trending up is really important. You want to continue to have really strong cash flow.

And one of the more important factors, I think, in selling a business is having really clean and accurate books. And I come across this a lot, is when I'm selling, trying to get a year-to-date P&L, and throughout the entire course of the

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listing, ensuring that you have the most current P&L up through that year, and maybe a rolling 12. That sometimes can be a big challenge with some of my clients. And I would argue that this is like one of the more important factors when you're selling a business to ensure we can show where the business is today, because if it's October right now and we're trying to sell your business based on 2024, there's a whole 10-month period now where it's going to really, you got to take that into consideration.

Andy: We put the most value on the business based on the current year. We touched on financial readiness, but market readiness is also very important. A market that is has strong buyer demand is a really good time for you as a seller to put your business out there on the market. That's a real positive thing. What about lenders, Patrick?

Patrick: Lenders are important. I mean, right now, if you have a business that is cash flowing and you can get an SBA pre-approval, as we spoke about in a previous episode, I think that's going to be perception-wise really strong for a buyer, right? And just to touch on your strong buyer demand, I think, you know, right now in the market, I'm seeing a lot of businesses that are asset sales, second generation, perhaps the cash flow isn't as strong. So when I do list a business that has strong cash flow, you're getting a lot of eyes on it, right? Because there's kind of a shortage of that in the market. And so, if your business is making good money right now, I would argue that this is a really strong time to sell.

Andy: Yeah. Another factor could be your particular concept type. We talked about in 2020, I mean, pizza restaurants just... right? Pizza delivery, they just were killing it. So the value just skyrocketed, but now their revenue is normalizing again. So your concept might be what's hot. A quick service restaurant, the craft cocktail bar, breakfast, brunch places are in very high demand currently. So you might have the right concept, so strike while the iron's hot.

Are lenders lending? We're seeing interest rates come down. We're seeing a nice uptick in lending on restaurants and so on. So there's another indicator that it might be the right time to sell. Let's see. When your lease has enough time left

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on it, that's a really important factor. I have too many people reaching out that are trying to sell their business when they have a year left on their lease, when they are month-to-month. What are we selling then? We're not selling, the lease is not adding value to this if we're month-to-month, and we're going to have to pretty much negotiate a whole new lease with the landlord.

Patrick: The perception again to a buyer on that is like, "Hey, there's no lease there. So what am I buying?" right? So, although it's not true 100%, it's always better to have some years left on your lease, as Andy just said.

The next factor I would say is personal readiness. You're no longer passionate about the day-to-day. You just can't do it. You're the ups and downs of a restaurant, your labor, your team is just taking a toll on you. You've been there for 30 years, you just want to retire. The restaurant industry isn't the same place it used to be. Whatever the thing is that it is now, you're just basically ready to get out.

Andy: I think on that note, too, sometimes you have a well-oiled machine where you're a semi-absentee or absentee. I'll be honest that when I put semi-absentee or absentee run in a listing, the amount of interest, it's tripled. I mean, the amount of inquiries about it because it's a quality of life thing, maybe it's a cash flow thing. Maybe an owner-operator doesn't need to be absentee, and they're going to be an owner-operator hands-on, and imagine what that's going to do to the bottom line when you offset some of that labor. So, that might be a good indicator of when to sell, also.

Patrick: Absolutely. I have a business right now that is a well-oiled machine, and the owners are almost all absentee, but the staff gets paid a lot of money to just like have peace of mind for the owners, right? So, it's kind of a, you're basically inheriting a business with fairly high labor. So you just got to take that into consideration a little bit.

Andy: Yeah. What do we need to do to prep your business? What do we suggest for that? To prep your business to go to market?

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Patrick: Yeah, I mean, I tell people kind of think 6 to 18 months out on listing their business, right? Depending on what their situation is. Also, a timeline on selling is going to be 6 to 8 months, right? So, where do you want to be in half a year from now? Because that's when your business is going to sell. So you kind of have to think about it that way.

Like, sometimes I get people who call me, they say, "Hey, I would like to, it's October now, I want to be done by the end of the year." It's like, probably not going to happen, right? Like, you got to be transparent with them because they're skipping up on a major part of the timeline, and I think that you have to take that in consideration.

Andy: Yeah, totally. Obviously, you touched on this earlier when you said financial readiness, but clean up your books. Try to cut out some of the personal expenses, right? I have a situation now that their seller discretionary earnings are very healthy for a three-unit chain, breakfast-brunch location in Northern California.

And I go to the lender, and I already had prepared my seller that I don't believe that their cash draws that they pay themselves to pay their mortgage at home is going to be an acceptable add back for the SBA. And I said, "Given how long it's going to be able to sell a three-unit business," I said, "Do you think we could start setting yourself up that you pay your guy yourselves through payroll as absentee owners rather than just taking cash draws?" And that is a way that they're going to posture themselves to be more appealing to the SBA lender.

Patrick: Absolutely. Also, one of the bigger things again is always around perception is spend a little money and clean up your place. Just get a janitor in there and clean the equipment as well as you can. Make sure everything's in good working order. When someone comes in there to buy your restaurant, and they see a nice, clean restaurant, the perception is going to be that there's some care here. There's some love that's going into things, right?

Where sometimes I show up to a restaurant and their hood is dripping oil. How's that going to show? Because it's not just about that hood that's dripping oil. It's about the idea that like this person doesn't really care about the restaurant

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anymore. What am I buying? Right? So, a few hundred dollars can go a long way in just getting back there in that equipment and making it look nice and shiny and polished a little bit.

Andy: One thing we've talked about in the past with second-generation restaurants, especially asset sales, is that yes, I do truly believe that an operating restaurant is more appealing, something that's open and operating to sell rather than a totally closed restaurant. There's pros and cons to each.

However, to your point about being clean, I have had restaurant owners close their business during our listing period, where they were operating, and they're like, "I don't want to lose any more money, or I don't want to put any more energy into this." And they close. They close down, and they literally have left the restaurant as if they locked the key at the end of that shift and walked out. I'm showing a restaurant with food on the ground that's been there for months. It's just bad. So it doesn't show well, and I'm not getting interest on that because there's no curb appeal to it once you get inside, right?

Patrick: I would assume so.

Andy: Yes, exactly.

Patrick: Which might take us into our next section. When is a bad time to sell, Andy?

Andy: When is a bad time to sell? When the numbers are declining, and when there's no explanation for why the numbers are declining, or excuses. Oh, it's all blame it on the economy. You know what I mean? Like, these sort of things don't fly. They don't resonate with buyers. We can't offer excuses. We need to answer with real answers of why things have changed.

When your lease is about to expire, or you have no option to renew. In certain situations, it may make sense for you to extend the lease or enter into an option. Not always, if the business is healthy and so on, in order to make it more sellable and have a lease to assign.

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How about when the market is flooded with distressed sales or asset sales? Your asset sale and your distressed business may just kind of blend into nothingness, right? You may not stand out. So it's a buyer's market, and you're going to get lowballed.

Patrick: Absolutely. There's like the saturation in the market of many second-generation restaurants. Why should I buy yours, right?

Andy: Exactly. Or we've seen this post-pandemic, and still to some extent today, there's a lot more places just for lease. So why am I going to spend five or six figures on a second-gen restaurant that's closed when I can go and lease a relatively turnkey space and put that money into my own concept and my own improvements?

Patrick: Absolutely.

Andy: This is a real, real easy one. When you're underwater financially, right? It takes a long time to sell these businesses. If you're already hemorrhaging money or you have a lot of debt, you have to consider all options, okay? And selling may be an option, but if you can't survive 30, 45, 60 days of a listing period to sell the restaurant, there is an extremely high probability that you will not sell your restaurant, and you're just going to dive yourself further into debt.

Patrick: Absolutely. And then also just trying to close escrow, you're going to have to pay off all that debt, right? So, not a great situation, and we've all been there.

Andy: Yeah. We're really trying to pound home the point of when it's the right time for you to sell your business, put it on the market. It really comes down to are you financially ready? Is the market ready for you to sell your business for the most value? Are you personally ready to sell your business? Those are all very important parts of this. Getting your books clean, making your location clean and shiny, these are all really positive things that will posture yourself to sell the business for the most.

So, let's avoid fire sales. Let's avoid when the market is inundated with listings. Let's avoid when you're so far in debt that it's just you don't have time to sell it,

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and it's not, you're not going to get the amount of money from the transaction to even put a major dent in it. So that's a quick little summary of everything.

But when was the right time for you to sell your business, Patrick?

Patrick: When was the right time for me to sell my business? Wow, that's a great question, Andy. 1 year after, I probably should have sold it.

Andy: Okay. That's so honest, but that's what happens, right? We wait a little too long, right?

Patrick: Yeah.

Andy: Guess what? I waited too long, and the pandemic hit, and then I got nothing.

Patrick: Yeah. And to put it in perspective, I was able to sell before the pandemic, which was a blessing on so many different levels, but I probably if I would have sold 1 year earlier, a lot would have been different. Yeah.

Andy: Got it. Okay. Well, a lot of life lessons here that we share with you. We really expose ourselves to you, hence the title of our podcast. Thank you, guys, for listening. Tune in soon. We'll have a lot more interesting topics for you guys to digest. Have a good day.

Thank you all for listening to this week's episode of *Restaurant Deal Making EXPOSED!* If you're considering selling your business and would like a free consultation, reach out to [patrickAndAndy@therestaurantsalesbroker.com](mailto:patrickAndAndy@therestaurantsalesbroker.com) or visit [TheRestaurantSalesBroker.com](http://TheRestaurantSalesBroker.com) to learn more.