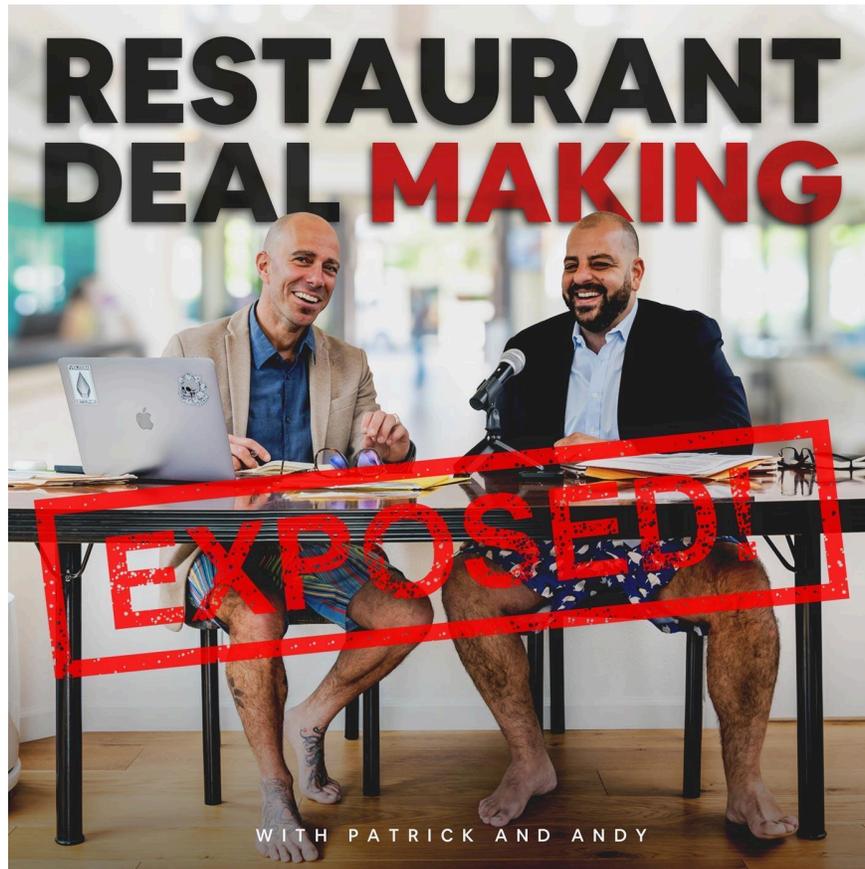


## Ep #47: When To Walk Away From a Restaurant Deal



### Full Episode Transcript

With Your Hosts

**Patrick Totah and Andy Mirabell**

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

## Ep #47: When To Walk Away From a Restaurant Deal

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 Mirabell: Welcome back to *Restaurant Deal Making EXPOSED!* I'm Andy. I'm here with Patrick. And today's episode is *When To Walk Away From a Restaurant Deal*. There are many reasons why business transactions unravel or don't make it to the finish line. I'm also very confident that Patrick and I strongly agree that there are many more reasons why restaurant deals unravel.

With so many working parts to our transactions, including extensive contingencies, alcoholic beverage control licenses, departments of health inspections, emotions of buyers and sellers, and so much more, these things can fall apart.

The only time to walk away or cancel a deal or contract is when the buyer or seller are ready to do so. And this decision is not up to us, the broker or the agent. But there are many signals along the way that tell us that moment might be coming. And we, as agents, should be honest and supportive with our clients as their trusted associates. And they can reach out to their trusted associates to make informed decisions on how to proceed with caution or pull the plug on a deal.

Alright, Patrick, let's differentiate here between the intent of our episode today of when potentially to walk away from a deal, versus the real big deal killers that we deal with in almost every transaction.

Patrick Totah: Yeah, this is much more about walking away from the deal and trusting your gut and knowing when to do that, despite your emotions or whether or not you want to do the deal.

When I was a young kid, I went to go buy my first car with my dad, and I remember him not valuing any car over the next. It was all the same to him. And I was like, "No, I really want this one." He's like, "Whatever, they're all the same." I'm like, "No, Dad, I want this one right here." So we go in, talk to the sales guy,

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and my dad gives him this like really low number. And I'm in my head, I'm just like, "What are you doing? You don't know what you're doing." And he goes, and the guy said, "You know, no, we can't do that." And he's like, my dad goes, "Okay, let's go."

And we start walking out, and my dad's like telling me to shut up. He's like, "This guy's going to follow us out to the car, and you just watch." And sure enough, we get in the car, and this guy starts banging on the on the windshield, like, "Come on, come back to the table." And I knew right then and there that my dad wasn't a dumb shit. It was that he was trying to teach me a lesson, basically.

Andy: He's a shrewd, shrewd negotiator. You learned a lot from that day, didn't you?

Patrick: I sure did. I'll never forget that moment.

Andy: That's funny. I'm sure you and I could talk more on deals we should have walked away from for our own restaurants with landlords that were hard or whatever, but let's not get into that right now. Yeah. But let's differentiate a little bit here. There's common deal killers, and these can be more objective categories, right? What are our top three here?

Patrick: Yeah, let's start with that. So I think one of the major things to walk away from a deal is the landlord. You know, are they being realistic? Does this sound like someone you want to be partnered with for the next 10, 15 years? You know, there are all kinds of telltale signs that I think will come up during negotiations, your meeting, that you need to really be, you know, aligned with the landlord. And if you're not feeling that, I think you need to think about whether or not it's worth, you know, walking away.

Andy: Yeah, and you want the landlord to believe in you, your concept, your prowess in the industry. So there is a relationship there to be built. And if it doesn't feel right, you should probably, you know, think twice.

Patrick: Yeah. And also, you have to think if there are some things that you're thinking twice about as far as deal points with the landlord, just think about when you want to go sell your business and how that's going to affect the buyer when

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you're the seller. So you have to kind of like put yourself in, you know, five, 10, you know, years down the road, is this something that a buyer wants to deal with? How is this going to affect when you want to sell your business? Because you should always be thinking about that. You never know.

Andy: Correct. Correct. The, you know, the other most common reason our deals are canceled are just simply due to due diligence. And I think we talk about this ad nauseam on our episodes about, you know, having clean books, having organized P&Ls, tax returns, and other things that paint a clear picture. Because when you start, you know, pulling back the drapes of the financials here, then things don't add up, add-backs don't make sense, the booking is unusual. These things can really cause a buyer to pull back or not see the value in the business they're buying.

Patrick: Absolutely.

Andy: You know, so due diligence is a big one. Due diligence could be other reasons, too. I mean, due diligence could be getting the change of ownership health department inspection, and there's \$30,000 more in improvements than you thought there would be or required improvements.

Patrick: Or you do an ADA inspection, or you know, you did some plumbing or electrical inspection, and the plumbing looks like the pipes are really, really bad that it's going to be a continued problem forever and ever. And, you know, how is that going to be decided between you and your landlord? It goes back to that. And, you know, one thing that I'll go back, I think, on both of these sections is history kind of repeats.

So you always want to check with your seller, what was it like with your landlord when, you know, something went bad with the building? What, you know, were they there to help support you, or did they put everything on you? Because most likely, even if the lease states otherwise, you know, there's a good chance that the landlord's going to deal with you the same way that they dealt with the person you bought the business.

Andy: Yeah. You must have good coffee today. You're really on point with these one-liners, huh? History does repeat, doesn't it, Patrick? Yeah. But let's talk

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about, you know, disclosures. That's another common deal killer. If the seller is not being transparent, is not disclosing fully, and things come out while you're in escrow or in the due diligence period, it can tank a deal. I mean, plain and simple. Right?

Patrick: Absolutely. I think we just recently had an experience with this where it was not, you know, you know, the seller didn't do it on purpose. They just kind of forgot, right? And, you know, I think, you know, disclosures are really important. If there's something massive or, you know, material that's happening in the area or something with the business that wasn't disclosed, absolutely. You may want to, like, you know, it might be, it's like a divorce at that point because you're probably really far in on the transaction and maybe even further than, you know, your contingency period, and you found out something that's material.

Andy: It alters the deal. It can alter the whole trajectory of the deal and ultimately could cancel it, right?

Patrick: Yeah.

Andy: So let's just reiterate. The most objective kind of common three deal killers here in our experience, the landlord, due diligence, and lack of disclosures, or just disclosures, right?

Patrick: Absolutely.

Andy: Let's move into the heart of this episode, though, because we're trying to get away from that. We are going to talk about other reasons that a buyer may want to walk away from a transaction or a deal. And these topics can be more subjective. And I guess the point of that is that the buyers need to trust their gut, their instincts, trust their associates that they have around them, their lawyers, you know, whoever it may be, their bookkeepers, and I hope they would trust us to kind of when we call out a red flag, we're doing it to inform them.

Patrick: Absolutely. I tell my buyers all the time when they start complaining about something or something doesn't feel right, I say, "You know, what are you going to do? Are you going to cancel the deal?" Because, you know, it's one thing to like, you know, have that feeling of something's not right. It's another

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thing for them to, you know, take them up on that, you know? And so I am open at all times. Obviously, I always want to get a deal done, but at the same time, I don't want to force anybody's hand.

Andy: You brought up your example about your dad taking you to the auto dealership today, right? And I think in my twenties, even into my, you know, 30-year-old, when I was taking over my second restaurant location and dealing with landlords, I was much more emotional. I wanted this. I'm like, "Nope, this is my spot. This is where I'm going to make it work." And I got in some really tough relationships with my landlords and these leases. And it was more emotional. I wish I had someone kind of coaching me along the way to maybe take a step back and look from the outside in before I signed the, you know, the bottom line.

Patrick: Yeah, I let me tell you about an example. I was doing a deal with this business broker named Steve Zimmerman.

Andy: Who's that?

Patrick: Yeah.

Andy: That's our boss. That's the owner of Restaurant Realty, guys.

Patrick: Back in 2009, you know, when I was not even a restaurant deal maker myself, and I was looking at this restaurant at the bottom of Four Embarcadero, and it was in the outdoor square there. And, you know, I was just in love with the location. I was like, this is the one. I want this one. I looked up. There's a huge building. There's a bunch of huge buildings. There's so much business to be had here. I have to have this one.

Andy: This is... Patrick, history repeats. See, this is like the dad, your car story again here.

Patrick: Yeah, I was all in, you know. And so, you know, we were really close to doing the deal, and then at some point, I realized that the price was probably inflated based on the revenue and the profit of the business. And my cousin slash business advisor at the time was like, you got to renegotiate the price if

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you're going to do this deal. And I was like, "Wow, that's a huge renegotiation. They're never going to go for this."

So, you know, I basically called Steve. I said, "Look, if we're going to do this deal, I have to get it done at X price," which was a major, you know, renegotiation price. And Steve basically told me, "I don't think the seller's going to do that." So he calls me, he says, you know, "The seller doesn't agree." I said, "Okay, I guess we're going to have to cancel." So, you know, that was what was happening. And then I got a call a week later from Steve saying that the seller would do the deal.

Andy: Wow. See, the walk-away tactic did work.

Patrick: Yeah, and I was a mess the whole week. I mean, I, you know, really wanted to do the deal. I had a lot invested into it. And sure enough, it came back around.

Andy: Good. All right. A few extra glasses of wine during that stressful week, or what, Patrick? Yeah. All right, let's dive in. These are more ethereal. So again, we're just trying to highlight a few topics here of when a buyer may want to walk away from a deal. I think I want to start with a very plain and simple one: time. Time kills deals. That was like this mantra that was pounded in my head when I was becoming a young restaurant broker, right?

Patrick: They tell you all the time, and it's probably one of the truest things. Yeah.

Andy: Yeah. So, you know, there's a lot of things during a transaction that can delay a transaction. And we can point to obvious ones, alcoholic beverage control, just not getting the file processed quickly, city, you know, department zoning, planning, all these things that are pretty straightforward. Health department delays, whatever it is. But I don't, I really want to red flag when a seller or a landlord are not communicating in good faith in a timely manner, and it just drags on and on and on. And why is that? Because they're not motivated to get the deal done.

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Patrick: Or a buyer. I've been dealing with a lot of buyers over the last, you know, six months to 12 months that are just taking longer to request items and review items. And there just seems to be like less motivation to get the deal done quick. And that's not great either, right? So then the seller starts getting a little nervous. Yeah. And, you know, I tell everybody on both sides, you got to work in good faith. You got to start, you know, if you don't have the time to do this deal right now, then maybe you shouldn't do this deal.

Andy: Well said. Well said. You pointed out earlier that if we allow 21 days to try to get a lease assignment or a new lease agreed on for a lease contingency, and it turns into, and this is common, it turns into 45 days, 60 days, 90 days. Again, Patrick pointed out earlier in the episode, this will happen again. This will repeat when you try to sell your business. So just, you know, buyer beware.

What's the next one here? Oh, I love this one. A seller always trying to sell. You know, and we always hear this, "Oh, this is so great. Oh, this is good. Oh, this is there's so much potential here and...." When we're in a transaction, we want facts, right? We want to deal with real, real facts, real numbers, real, you know, details about the business that are vital. But sometimes a seller always trying to sell is hiding other things that are maybe not going well in the business.

Patrick: Yeah. When they're trying to oversell you, you know, like it's just it seems like a red flag from the get-go, you know, usually, not all the time, but, you know, they could be just very passionate about their business, and that's good too. You know, I would never take a seller's passion away from them. That's, that means they really love their business and their location and all that stuff, but it can go a little too far sometimes.

Andy: Totally. And again, just to reiterate, we've talked about this in other episodes, the way that we value a business is based on past and current performance, right? We're not putting a lot of value on what could be. All right. This is a fun one for us because you know, half of our job is as psychologists and therapists in our transactions, I would think, right? The last kind of major, major section here is emotions. We can really deal with a lot of emotions from both sides. And I'm an emotional person. I'm a talkative person, and I

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understand there's a lot of emotions in these, but they can oftentimes get in the way. Let's expand on this a little bit.

Patrick: Yeah, I mean, I think emotion does sometimes drive a deal, and sometimes you have to disconnect from that. I mean, I've I was emotional when I did my transaction when I sold my restaurant. And, you know, I had every right to be. The buyers were crazy and driving me up the wall, you know. So, but you have to, you know, and sometimes even in a transaction when I'm helping a buyer or a seller, I get emotional for them, and I have to kind of like take a step back and say, okay, you know, someone needs to be the not grown up in the room, but you know...

Andy: Yeah.

Patrick: The calming force.

Andy: One experience that I have is especially with a going concern where someone's going to take over the concept and carry it on. It's vital to train the buyer, you know, to the standard of the seller and then let them make their decisions after escrow's closed. But I've had a lot of emotional sellers where they're like, "They're not going to do a good job. They're not going to do it like I did." But you can't control that. You really can't control that. And it's gotten in the way where I've had sellers oftentimes say, "I'm just not sure this is right," and it's been late in the transaction, and it's emotional. You know, it's emotional at that point. Maybe they're having seller's regret. That's another emotion that can come out. They're having second thoughts about giving away their baby that they've created, right?

Patrick: Yeah. That's funny. I've experienced that a few times, and it's true. It's like, why, I mean, I get that you, you know, care about your customers or your employees, but sometimes not running the business the same way as the seller did may actually be better, you know? It's fresh eyes, fresh ways, and sellers are just so tied to the way that they were operating. And unless they're going to be the landlord moving forward, you know, after the close of escrow, like, you know, it's out of your hands, and you kind of have to let that go.

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Andy: True. Yeah, ego can sometimes get in the way of this stuff, and it is a common theme. It's understandable, but it can really rear its head in the wrong way in a transaction. I think emotions can be valid sometimes, too. You talked about, you know, you know, just really being emotionally tied to your business and wanting the best for your team, your staff. But on the flip side, if a buyer is ever feeling disrespected by a seller or a landlord for any reasons that's not related to the business transaction, that can be a red flag too. And I think that's a valid emotion where someone can be like, "This is, this doesn't feel right," you know, and I think we need to address that too. So we always got to go through these.

Patrick: Yeah, like sometimes a team is all about the seller, and if, like, the buyer takes over, you know, how is that going to be for them? Are they going to quit right away because they were just so all about the seller? And so that's another red flag if, you know, your team is not going to be, you know, behind you as the buyer, then you're going to have to restart hiring everybody, and that's not good.

Andy: Yeah, it's a nightmare. I've had unfortunately, you know, one seller that undermined the confidence in the buyer of taking over with his team because she had less experience in a certain niche part of the food and beverage network, and it or, you know, industry, and it was really sad because the buyer was such a lovely, intelligent, highly motivated person, and it really hurt their first couple months of operation.

So, all right. Well, I think just in conclusion, let's talk about the two sections that we really were talking about. Our big deal killers, which are pretty objective: landlords, due diligence issues or due diligence discovery, and disclosures or lack of.

Patrick: Which are all reasons to walk away from a deal.

Andy: Yeah, exactly. There's some of the less, you know, kind of let's call it subjective reasons to walk away or consider walking away from a deal. Time can kill a deal, a seller always trying to sell and not maybe giving you the information that you're requesting that's valid to the transaction. And then emotions. A lot of emotions are part of these transactions. They can be positive,

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they can be negative, but if you're feeling overly emotional about something, trust your gut, right?

So in conclusion, not every deal should close. It shouldn't. These deals do not always work out. But not every red flag is fatal, okay?

Patrick: Well put.

Andy: We can work through these things a lot. That's what, you know, that's I think why Patrick and I are a good asset as agents in these transactions because we've seen a lot. We haven't seen it all yet, but we're getting there, okay? So just to be clear, you know, both parties, you know, really need to work together to get to the end of a transaction, but not always, it doesn't always get done.

There it is. Thank you, guys. Thank you for listening. We will be back soon with another exciting subject or exciting guest. Tune in soon.

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.