

Ep #61: Planning a Restaurant Exit Strategy Before It's Time to Sell



Full Episode Transcript

With Your Hosts

Patrick Totah and Andy Mirabell

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

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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, everyone, to another episode of *Restaurant Deal Making EXPOSED!* I am Andy. I'm here with Patrick. And today we are doing an episode on having an exit strategy. Most restaurant owners think about how to open a business, but very few think about how they're going to get out of it. An exit strategy should actually begin before you buy the restaurant or sign the lease because the decisions you make on the front end can have huge impacts on what the business is worth when you're ready to sell or when you need to sell. Today, we're talking about what a realistic restaurant exit strategy looks like.

Patrick, I'm sure it's going to come up, but you know, let's go back to our younger years here and go when we were all, you know, full of energy and passion and all these things about opening our own restaurants. Was that top on your list to think about an exit strategy?

Patrick: My plan was to open a multi-unit type of business where, like I wanted like, you know, three, four, five locations. I thought that trying to build something that size would be something that I could sell later on and also not trying to be just a one-unit operator. I thought it would be, you know, much more lucrative, of course. However, I did get to two, but I was having problems replacing myself, and the partnership didn't really see the same vision.

Andy: Yeah, totally. We can definitely expand on partnership differences as time goes on. In the roles that we have now, in our in our shoes today as restaurant brokers, we now have insight to so many different paths. Exit strategy, closing, selling, expanding, licensing, whatever it may be, they didn't cross my mind back then in my 20s, right, when I was trying to open my first location. So, I think it's good to have this conversation. I think it's useful for people to highlight this as they develop their business plan and eventually lock in on a location lease or new business.

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Patrick: Yeah, and things can change. It doesn't always have to stay the same. You know, it's like having a budget. Your budget, you have it in place. It's organic, like you said, and you know, it's constantly changing and evolving, just like your exit strategy should constantly change and evolve. And your exit strategy might be I want to hold this for 15 years to where I want to retire, but having a game plan for that 15th year and being set up versus waiting till the last second and then, you know, being reactive and saying, "Oh, I need to sell now," it's always going to set you up for a better outcome, right?

Andy: Absolutely. How can we go about doing that? You know, I guess you can touch on a couple ways we can go about doing this.

Patrick: Yeah. I mean, so again, figure out what your exit strategy is. From there, you're going to figure out what the plan is, right? I mean, did you have an exit strategy when you went into your whole?

Andy: You know, mine sounded a lot like yours. Hey, I want to open up a flagship that I'm super passionate about, sticking to my core business values around the concept and what we're serving and how we're serving it. I wanted to expand from there into other locations. I wanted to buy out my partners at some point because, you know, they were more financial investors, but had too much power. I know at some point I realized that, and I was hoping that potentially I could buy them out. It didn't work out that way. And I, like you, found myself in a position where I was hard to replace. My partner and chef was hard to replace, and maintaining the quality of what we wanted to do was difficult.

The bottom-line numbers were not there to make big moves like buying out partners and such. So, anyways, I had to be fluid. At some level, I waited too long on one of my locations to get out of. And on another one, I just made the decision it was time to kind of get away from it. It was taking too much of my time, so I sold it. So, it definitely changed over time.

Patrick: Yeah. And I mean, I think the important thing here is that when you have a game plan, whether it's a short-term game plan or a long-term game plan, and you have like, you know, your accountant on board, there's going to be different

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things that you're going to do with your financials that are, you know, more aggressive if you're, you know, you're there and, you know, depending on your time or you're going to have a more long-term kind of approach.

So I think having that game plan, it doesn't just help you for your own, you know, what you want to do, but also how you're going to operate the business and your financials and how you're going to make decisions because if you're going to be there for the long-term, your decisions are going to be much different than if you're, you know, you have a different kind of game plan from the get-go.

Andy: A short-term, you may be to build something up and sell it. That may be different than a long-term kind of business ownership where you maybe you're trying to set yourself up for retirement at some point, you know.

Patrick: Yeah.

Andy: You know, Dan Engel of Engel Accounting is a household name on our podcast, and he's really on it about the budgets and reviewing them and staying on top of it because if you're not on top of that and you're not on top of the trends, this exit, this quote unquote "exit," may sneak up on you and not in a good way because you go, oh my god, things are not trending in the right direction. We have six months to live as a business.

Patrick: Yeah.

Andy: Likewise, what about things like the Great Recession? What about things like the pandemic? The pandemic forced me out of my flagship. It wasn't any choice of mine, but I had to make some hard choices at that point in time.

Patrick: And there's always going to be the unknowns, right? It's not like, I mean, the pandemic was rare in what it was, but if you're a baby boomer and you've, you know, been in business for 50 years like our good friends over at Orphan Andy's, they've seen, you know, the 1979, '80 recession. They've seen, you know...

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Andy: 51 years. Is that right? Was that the right number I'm pulling out of my something along those lines?

Patrick: Right around 50 years. Yeah, so they've, they, you know, they were there for 2008. They were there for the pandemic. They were there for all of the different ups and downs. And so having a game plan in place ahead of time can help you through these, you know, ups and downs because inevitably there's always going to be an up and a down. And knowing how to ride through that is very, very important and always being set up to be able to kind of, like, take on something like that is really important.

Andy: I think as related to exit strategies, I want to kind of loop in this subject matter. I would like to touch on, is buying an existing restaurant concept smarter and will it make an eventual exit or exit strategy easier to plan out, or if you're of the posture to start your own restaurant from scratch, your own concept and build it up, build a sellable concept and business, how does that affect an exit strategy? So if we can touch on those kind of two different scenarios, take over an existing brand or you're opening something from scratch and building it, how does that affect our exit strategies?

Patrick: I would suggest that if you don't really know how long you're going to be in business or you're short on cash and buying a second-generation restaurant is probably the best way to go because that's going to be your quickest way in and, you know, if you don't know what's going to come of this, you're taking your shot, I'm going for the second-generation restaurant.

If you have investors or you have a good amount of money, you really feel like you're in it for the long term, 15, 20 years. Obviously, building out a restaurant is going to be the better deal because, you know, whatever that cost is, you're going to have a massive depreciation that you can take over the next 15 years, right? So you're going to be there to be able to, you know, offset your profits with all that depreciation. And so if you're in it for the long game and you're a big restaurant concept and, you know, maybe building out isn't such a bad thing after all.

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Andy: No, absolutely. I agree with you on everything you said. Starting from scratch is hard, right? You're developing a business plan, you're developing your concept and all of these things, building your own team, getting into a new lease and most likely designing your own, you know, layout and restaurant and stuff. So that definitely can have a lot more unknowns and unexpected circumstances as related to exit strategies. And I think a lot of that probably is tied to funds, budgeting and funds.

Patrick: Yeah.

Andy: Yeah, so like you said, you need to have much deeper pockets if you're going to start from scratch and it could make much more sense for you as a business decision, but the budgets definitely go up.

Patrick: When you do build from scratch, you can't just take into consideration the cost to build the restaurant. You have to then take into consideration the day after you open. How long is it going to take you to break even? How heavy are you going to staff to make sure that you're building that service? You're making an investment not just in the beginning part, but also until you become profitable. People probably underestimate that a little bit.

Andy: I agree. We deal with selling second-gen restaurants, restaurants, bars, and other food-related businesses specifically. I think if you start to look through the lens of buyers at times, there are certain things you look for in purchasing a restaurant or second-generation restaurant space that can have large impacts on your exit strategy or the time that you need to exit or sell. And I'm referring to specifically maybe the age of the restaurant, the age of the equipment. If you sell something that is so heavily used and the replacement cost for a buyer coming in is so great, it definitely will lower the value of what you're selling. So you need to take that into consideration for your exit.

Patrick: If your plan is to have an exit strategy so that you want to retire and actually have like a chunk of change afterwards, right? I mean, it's a very clear plan. You need to have a going concern restaurant that's making at least \$300,000 or more.

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Andy: Consistent profitability.

Patrick: Yeah, clean books so that you can get, you know, a seven-figure sale price. And so you have to have a going concern that's profitable, clean books, you have to have a team in place that knows how to do things. You've got to have your intellectual property organized in a way that can be passed over. These are the things you want to do so that you can retire with like something after you just worked your tail off on this restaurant.

Andy: And generally you want a well-maintained, you know, restaurant, passing on clean, maintained equipment too, as related to FF&E. So, I think you bring up a good point. It's kind of like knowing your exit numbers. We know how many of our transactions are tied to in assets base, assets in place methodology of valuing it, which isn't always the highest number. So these businesses that are going concerns that have consistent profitability, strong profitability, good books and so on, sell for much, much higher multiples and can really leave you with a fair amount of cash when you choose to sell. But those are more far and few between, you know, these days.

So let's talk about it. What does a business need to justify the value you want when you sell? And I think you highlighted a lot of those points of profitability, clean books, good staff, good team in place. Those things are going to add a ton of value. So if your exit strategy is to sell, retire, or end with a larger chunk of money, please make sure you're checking all those boxes.

Patrick: Yeah. I mean, the biggest number that potentially could be there is, you know, any liability or debt that you owe, like if you took on an EIDL loan, if you owe, you know, money on your SBA loan, if you owe a bunch of vendors, you know, you want to be, you know, within your terms at the end of when we're looking to sell, you don't want to have a big old chunk that you have to pay because I think another thing that people underestimate is once you sell your business, you have to pay capital gains. Depending on what your, you know, where you are in your depreciation schedule, you know, you should look at about 33% of that number given to the IRS and the state of California. You

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know, you're keeping 65%, give or take, depending. And so that, you know, surprises a lot of people.

Andy: It sure does. It sure does. So you definitely have pointed out a couple things they should keep in mind. Now, if you're selling a large going concern for a high dollar amount, you probably should also keep in, you talked about taxes, you talked about debts. Don't forget about commissions. We earn our keep, but it's not a small number sometimes, so it is it is something that the seller should budget for and be aware of.

Patrick: Yeah, of course. Yeah, absolutely.

Andy: I think one of the themes we keep saying about exit strategy is before you're ready to sell. Maybe you don't have an exit strategy when you first bought the restaurant or when you first opened. I didn't when I was 28 years old and trying to open my first restaurant, but it definitely started to enter my mind. But I think the theme here is we say for your exit strategy is to keep very clean records. Your documents need to be organized. Hopefully, you'll have successful, clean books that show profitability on your P&Ls and tax returns.

Maintaining your facility is really, really important because people are going to see value in buying quality, good equipment. And also, you should definitely, definitely start planning for your exit two to three years in advance to make everything as streamlined and beautiful as possible, right?

Patrick: Absolutely. You should always be ready to sell regardless of where you are in your timeline because, as we know in this life of ours, there's things that come up, and you always want to be ready, having clean books, all these things; these things should be always ready to go just in case. You know, some life event happens. You want to be able to sell for top dollar. You don't want to, like, be caught with your pants down, as they say, right?

Andy: No. Oddly enough, a little sidebar. I had a really interesting conversation with a restaurateur in the Fairfield area recently, and he wants to retire. He's got clean books, very simple books, profitable, you know, Chinese food restaurant, and it's been there a long time. I'm not saying it's, it's a rather non-descript

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concept and location. However, the books are clean, it's sellable. And he said, "Yeah, let's sell." We agreed on the price and then he said, "You know what? I've come to the time where it's time for me to exit and retire."

However, he said, "You know what? I'm going to wait another year." I said, "Why? Why are you posturing to wait another year into '27 or '28?" And he goes, "Because my restaurant is next to an Air Force base." And he says, "Our reservists, the numbers and population is starting to rise at the Air Force base." And most of his business is relying on the Air Force base. So the world conflict now, which is mostly harming businesses, is helping his. He says, "I'll show a healthier books this year and next year because of it," because the population of the base. Isn't that, that's a very interesting situation.

Patrick: Sounds like a smart guy. I mean, hopefully it works out all right. Andy, I'm going to surprise you.

Andy: Yeah, go for it.

Patrick: Since we're at the tail end of our episode here with a little bonus question.

Andy: Okay, hit me.

Patrick: If you were to open up a concept right now, what would it be? I know you get the itch every now and then when you look at a hooked-down location, and you're like, "Oh, I think I can do--"

Andy: 100% I do. 100%, and being a dad with my hands always moving, you know, with three things in my hands and practice and driving and making food and trying to work and all that. Like I miss the restaurant grind at times. Not sure my brain or body could handle it anymore, but I still miss it.

Patrick: It doesn't stop us from thinking about it.

Andy: I don't know if I should say it on air here, but I have a fantastic concept with my partner. It's always been a pipe dream. My nickname for her is Oko

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Queen. It's a homage to okonomiyaki, Japanese breakfast omelets. And we want if we ever had the opportunity or funds to do it, and do a Japanese-style brunch.

Patrick: Cool.

Andy: Yeah. That's that's it. That's the pipe dream, but, you know, waiting for that right opportunity. So if you get any new listings, Patrick, you know who to call.

Patrick: I may have the perfect spot for you.

Andy: Really? You're trying to kill me, aren't you? Thank you guys, for listening. Have an exit strategy. It's vital. I know it's something that we don't always want to think about, but it is smart business. So please look into it further.

If you have any questions about anything on any of our episodes, don't hesitate to reach out to us via email. And thanks again.

Patrick: Thanks, everyone.

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 or visit TheRestaurantSalesBroker.com to learn more.