J.H. CHAPMAN GROUP, L.L.C.

Investment Bankers

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Selling A Business

Selling one restaurant can be complicated, but selling a restaurant chain with multiple locations—which some expect will happen more and more in the future—will create a whole new set of problems for both the seller and the potential buyer.

THE REASON. The reason for the sale may affect what's actually being sold. For example, if an owner/manager wishes to retire and does not have heirs who are interested in continuing the business, the sale of the chain is probably the best alternative.

However, if the reason for the sale lies in the owner's inability or unwillingness to effectively franchise the concept, it might be more advisable to sell the franchise rights and continue to operate existing units.

Some franchised restaurant chains have tried to sell company stores to franchisees, leaving the royalty income and franchise responsibilities with the original owners. This strategy can generate significant cash, since unit values are a function of store cash flow and the value of the fixed assets and leases.

By retaining the franchise rights, the original owner can continue to be active in developing and growing the concept without the day-to-day headaches of store operations.

As with selling any business, it is always necessary to seek the advice of professionals before you begin the process. You should talk to an investment banker, your attorney, and your accountant These three professionals represent your "selling team."

Their sole purpose should be to assist you in achieving your selling goals. It might also be wise to consider seeking the advice of an expert in real estate and site evaluation. By conducting a thorough analysis of the company-owned locations, your advisors will be better equipped to analyze the marketability and value of the chain.

PROCEDURES. The procedures involved in selling a chain are much the same as those for selling any business:

- Analyze the true reason for selling.
- Use your advisors to help determine sensitive issues such as value, legal issues, method of sale, and the secrecy of the transaction.
- Help the investment banker prepare the selling memorandum.
- Prepare a list of potential buyers.

- Choose among the many methods of conducting the sale, such as the use of an auction, targeted buyers, advertising, and networking.

- Prepare for visits by prospective buyers.

- Allow your investment banker to negotiate the terms and assist in the negotiation of the letter of intent.

- Allow and assist in the buyer's due diligence (the buyer's investigative work necessary after an indication of the financial willingness to acquire the chain is confirmed but before the final definitive purchase agreement is reached).

The major differences between selling a single foodservice unit and a multi-unit concept lie in the complexity of the investigative due diligence that prospective buyers perform prior to closing the purchase.

In chain purchases prospective buyers will review and evaluate many key aspects of each location. It is always wise to perform this review before your company is put on the market so that you can anticipate buyer questions and adequately prepare for the type of review that the company will face. Prospective buyers will want to:

- Evaluate all locations for lease terms, including the length of the lease and remaining options, purchase rights, lease payment obligations, taxes and maintenance fees, lease restrictions, and any other lease terms that might affect the continuing profitability of the location;

- Evaluate sitemarkets in order to understand the likelihood of future sales gains or losses

- Conduct in-depth appraisals of store managers, measuring performance, compensation, and promotability;

- Appraise the quality of the home office real estate staff and their approach to site selection and lease negotiation

- Evaluate the company's franchising capabilities. Since significant growth in chain operations may have come through franchising, a franchisee concept will have more appeal, and therefore more value, than a nonfunctional operation;

- Analyze existing franchisee relations. Normally this analysis includes delinquencies in fee payment, adequacy of the franchise contract, and conversations with franchisees; and

- Investigate the support activities provided by headquarters to store management and franchisees to determine if additional expenditures are required.

Selling a chain requires the same owner patience and preparations that it took to develop and expand the chain concept. Since most chains will ultimately change ownership, planning ahead will generate larger valuations and fewer disappointments.