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In a post-pandemic world, what are my restaurants worth

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WHEN CLIENTS AND FELLOW restaurateurs ask what their restaurant is worth, my general reply is that it's worth a multiple of your cash flow, or EBITDA (earnings before interest, taxes, depreciation and amortization). Next, I look at what that multiple is based on whether it is a growth concept, an early-stage company or a mature company. If it is a mature company with consistent cash flow, I might say it is worth between four and five times EBITDA. If it is an early-stage company that is showing some promise, I might look at three to four times EBITDA; and if the concept has multiple units and has shown some real potential for growth, I might say it has a multiple of six or seven times EBITDA.

Those are basic guidelines I have used for years. I factor in whether the concept is franchisable, which may bring a higher multiple, and the number of units. This was true for many, many years, but current issues with the pandemic have impacted restaurants, affecting their EBITDA track record the last year and a half. Or in some cases, restaurants have benefited from "the pandemic spike," due to their service model, such as strictly takeout, large patios, or other things that may have actually led to greater sales than prior to the pandemic.

So the real issue in this process is: what is the true EBITDA, and what are things that you can do to "normalize" the EBITDA so that somebody could truly look at it for valuation? Here are four steps to consider if you are looking to sell during this continued or post-pandemic period:

1. First, determine what your attributes are. Do you have a concept that will continue to hold strong post pandemic, one that has a lot of flexibility and a number of profit centers? If that is the case, then you are probably going to get a higher multiple because you have a model with protections against some of the downturns and also a significant upside. This is particularly true if you are showing strong sales post pandemic. So, No. 1 is to evaluate your concept and see if it is on point going forward.
2. Second is historic cash flow. Look at your restaurant pre-pandemic, the number of years and the consistency of earnings. If you have an iconic concept that has shown a strong cash flow for many years, you have a strong valuation. Although if it's not a growth concept, you may be in the four to four-and-a-half multiples; as long as you have consistency, and particularly if you've gotten back to reasonable sales levels after the pandemic.
3. If your concept is one that consumers see as one of their ongoing dining choices, you may be able to get the higher multiple. You need to be able to show what your plan is going forward, how your marketing is continuing to attract customers and how you have positioned yourself post pandemic for success, such as converting to effective takeout and delivery.
4. One of the ways that you can increase your value is to show that your concept has the ability to grow. Fast-casual concepts are particularly in a good spot. A definite upside is to have multiple profit centers, with strong unit economics, and a second and third unit. That is going to attract the highest multiples, and may sell for a multiple of gross revenue versus EBITDA.
5. Specific components of the business to consider include labor, technology and marketing. Concepts that have low labor costs and flexibility in their labor force during this tight labor market are going to fare the best. It also helps to have flexible staffing. In addition, you need updated technology, including point-of-sale systems like Toast and other software that allows you to do QR ordering and keep track of marketing. This is key to being able to have a strong and marketable concept. As far as marketing goes, sellable concepts have a strong brand name, something that has some real legs that customers will consider forward thinking.

In order to have a successful sale and successful valuation, you have to be able to show you already have or are addressing the key elements of the post-pandemic restaurant world.

One final note: there are buyers out there. People are still interested in the restaurant world and investors are still interested in growth concepts. The private equity people have money, local restaurateurs who are still flush with cash from the government programs may be more than willing to look at your restaurants and your concepts. Good luck. FSN