

## Eight ideas for your restaurant company in 2024

By Dennis Monroe

If there was one theme at the latest Restaurant Finance & Development Conference, it was uncertainty. Some say a recession is imminent, some say it's not. Some say the interest rates will stay flat, others claim they'll go down. We really don't know, but here are some things to think about for 2024.

### 1. Take a careful assessment of your existing financing.

Any financing coming due in 2024-25 needs to be planned for way in advance. Also make sure you're providing enough liquidity so as you need additional financing for either improvements in your restaurant or other acquisitions you'll have what we call "dry powder." If your bank relationships are strong, meet with your banker before your loans are due and work through your needs. You may need to shop new banks. Also keep in mind that cash deposits for a bank are gold.

**2. If you're looking for an acquisition, now might be the time.** It's been a long, tough time and many restaurant owners are looking to sell. The market in terms of valuation should stabilize. Lenders and buyers will not be looking at numbers in terms of pre-pandemic or even post-pandemic numbers, since we'll have almost three years of somewhat normalized earnings. I do believe continued higher interest may depress selling multiples. Also, you're going to have the advantage of the seller possibly looking to carry some seller financing and you may also be able to get a better upfront price if you give the seller a claw-back participation in the event that you flip the property in the next year or two. Also consider a buyout of less than 100% so the seller has a carried potential upside, and less cost upfront.

**3. Own your real estate.** Now is as good a time as ever to do so. This has been a debate in the Monitor for years. I know the interest rates are higher, but cap rates have not gone up as fast as the bank interest rates, so you've still got favorable real estate acquisitions from a cap rate standpoint. If you elect to not own real estate and opt to flip it to a sale leaseback group, you still are getting what I would consider to be market or below market cap rates. Finally, real estate ownership also creates options and flexibility in uncertain times.

### 4. Franchisors should enlist the help of franchisees.

Franchisors, 2024 is a good time to be looking ahead to the future of your system and how to attract top franchisees. Consider your systems a partnership and start implementing partnership ideas with new and existing franchisees in 2024. Work together when implementing technology and designing marketing plans. Come up with a flexible royalty rate, guarantees and non-competes, all in an attempt to attract sophisticated groups that have the ability to grow and develop, using reasonable development agreements. A sophisticated buyer won't spend the time looking at a one-sided agreement.

**5. Consider how you structure your business.** As to year-end tax planning, one of the most important things is to ensure your organizational structure creates flexibility, such as a management company, a company that owns your intellectual property and different types of entities, C-corporations and S-corporations and LLCs and in some cases limited partnerships. Make sure all these entities are at least considered and you have a structure that fits future growth and tax planning, especially since we still don't know what the tax laws are going to be.

**6. Take a second look at employee benefits and culture.** Employees are your No. 1 asset, therefore, you need to have forward-thinking employment tools and a strong culture. Look at phantom programs, such as stock appreciation rights. Provide for restricted stock ownership. Be bold and look at an ESOP. Make sure your bonus plans fit the situation and keeping in mind profitability, create efficient employee-benefit programs. Utilize cross training so that if you are short-handed in one area, you can pull people from other areas to fill in the gaps. Be clever in your recruiting. Advertise your culture, showing employees for your company can have fun and feel good about where they work.

**7. Think about how you will grow.** People in the restaurant business always look to grow and expand, sometimes with new concepts, sometimes with existing concepts. Leases and the types of sites you're going into need to have flexibility that can address fluctuations in sales, as well as a possible recession. So, yes, do

development, but, don't grow too much. There still is wind in our faces, not our backs, at this point.

**8. Be flexible if you are selling.** With selling, the same issues we discussed about buying apply. You have to be creative and allow for flexibility as it relates to pricing and payments. If you're going to ask for a top price, you'll need to consider a carried interest, either a seller note or minority hold. You are probably going to need to accept an earnout. Be creative, but safe.

The key takeaway here is to be patient and thoughtful in 2024. It's going to be an up-and-down year. I don't

think we're going to go into a recession, but that's just my optimistic side talking. I do think there are going to be some bumpy roads, so take advantage of the highs and the lows, depending on which side of growth you're on. After all, isn't uncertainty the cornerstone of the restaurant business?

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