

EXCERPT FROM:

What It's Worth:

Valuing Full- Service Restaurants

What It's Worth: Valuing Full-Service Restaurants

A BVR SPECIAL REPORT



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What It's Worth

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Introduction: Restaurant Valuation in Troubled Times

The COVID-19 pandemic has hit the restaurant industry very hard, particularly full-service restaurants. Fast food and eateries geared to takeout have generally fared better than their white-tablecloth counterparts.

Even before the current crisis, some clouds were on the horizon for restaurants, including a lack of clarity in the economic and regulatory positions of U.S. President Donald Trump's administration. Now, with what has happened lately, valuation experts face an extremely challenging situation.

While methodologies and approaches are evolving to address the valuation challenges in this new world, valuation thought leaders urge practitioners to go “back to basics”—that is, step back and look to fundamentals when approaching a valuation. For example, don't simply assume that you are looking at a going concern—the restaurant may be worth more dead than alive. That means you may be looking to the asset approach in more cases than before. You will also need to have a better understanding than before of what makes the restaurant tick—that is, what is its “soul.”

This report will discuss some considerations and emerging techniques for valuing full-service restaurants amid COVID-19, which are included in Section I. Back to basics and fundamentals will then be covered in Section II, which will cover traditional value drivers and valuation methods. Valuation expert Lynton Kotzin explains that the industry is seriously segmented, and the segment your client is in determines how you will proceed in your valuation. The full-service, sit-down restaurant was historically the most popular, but they may be individually owned, part of a chain, or a franchisee. To illustrate the fundamental real-world decisions that must be made in valuing a stand-alone restaurant, Kotzin provides a case study from his own practice and answers questions about restaurant valuation. The importance of the site visit is

also discussed as well as an additional discussion of valuation approaches, the question of restaurant branding, and digests of legal cases related to restaurant valuation.

Other sections of the report will cover the current market and trends for full-service restaurants, the buying and selling landscape, and the role of succession planning. Of course, the pandemic has created great turmoil and volatility in the markets.

The market approach still must be considered in today's upended market, so the final section provides benchmarking data from DealStats and advice from experts in the field via the *Business Reference Guide*, along with additional resources related to the industry.



Valuing restaurants has always been a dynamic and challenging process, now more than ever given the impact of COVID-19 on eateries. To meet this challenge, a back-to-basics approach steeped in fundamentals is required in order to build a foundation on which to develop a valuation in today's volatile environment.

What It's Worth: Valuing Full-Service Restaurants, from the editorial experts at BVR, takes a deep dive into the unique considerations for restaurant valuation – as well as the long-term outlook for consumer preferences and financial performance. The report draws upon the best data and industry sources available and summarizes key insights and appraisal factors to help guide your professional judgment in determining a conclusion of value that is as reliable as ever.

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