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What should you know about effective restaurant transactions?

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AARON ALLEN & associates
The World's Leading Restaurant Industry Advisors

Meaningfully Move Your Market Share; Shore-Up and Secure Shareholder Value

In last week's issue, we talked about our silver lining thesis for the restaurant industry, and how M&A fever will be catching across foodservice.

To follow that up, we thought we could host a little Q&A session, sharing some thoughts on the most common questions asked about restaurant M&A.

1. Why should we consider an M&A Transaction?

This is a fair question — and M&A isn't the right fit for every company's current situation.

On the buy-side, companies can benefit from expanded market share, gaining ground into new markets, and partnering with established operators while diversifying their portfolio. Sellers can also reap the benefits of broader market share, enhance their sustainability and longevity, and develop strategic partnerships to better [optimize performance](#).

In any case, thoughtful [investment thesis ideation](#) and well-informed [due diligence](#) are key foundational elements of a successful transaction and integration.

2. How long does the M&A Process typically take? What are the steps?

The typical M&A process can take anywhere from 4 months to a year (though it can certainly move faster or slower, depending on the situation).

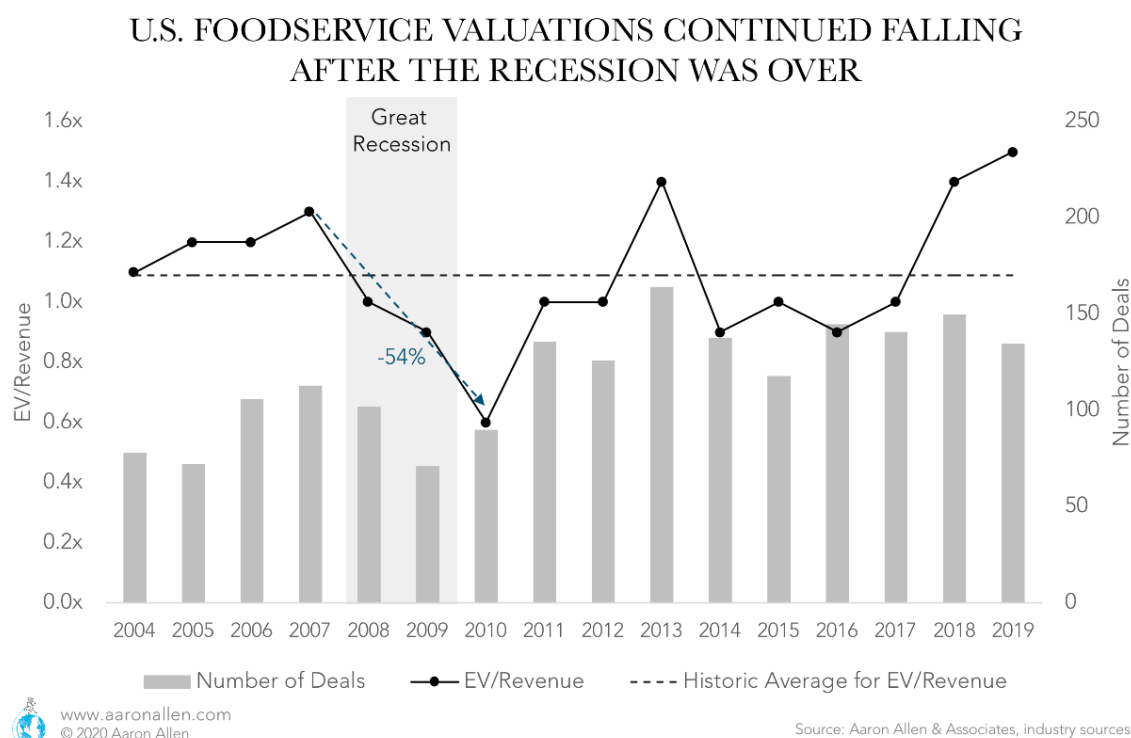
Buy-Side: For buyers, the process starts with scanning and sourcing the deal landscape to identify potential targets — then establishing a fair price and negotiating terms for a target company. The diligence process (including legal, financial, commercial, and operational) to validate the investment opportunity will also help identify low-hanging fruit and longer-term potential for the business as well.

Sell-Side: Establishing clear criteria to look for in an investor or partner and defining goals for the outcome of taking on an investment is the best place to start. In any case, the process on the sell-side for a successful M&A transaction usually entails: determining investment parameters, preparing a teaser and CIM, valuating the business, receiving a letter of intent (LOI), preparing due diligence materials, negotiations, signing a definitive purchase agreement, and closing. More on [how restaurants can prepare for a PE transaction](#) here.

3. But we're (officially) in a recession ... what happens to valuations during a downturn?

It's true — [valuations](#) typically take a cut during [downturns](#). During the Great Recession (December 2007 to June 2009), U.S. restaurant valuations (measured by EV-to-Sales) decreased by 54% — from a peak of 1.3 in 2007 to a bottom of 0.6x in 2010. Valuations continued to fall after the recession was officially over (in June 2009) and it took three years to recover from that valley to pre-2008 values.

The volume of deals also decreases in recessions. Between 2007 and 2009, the number of deals dropped by 37% and didn't fully recover until 2011 (3 years after the start of the crisis).



But in today's market, because of the large amount of dry-powder, the drop in valuations may not be as significant as during previous downturns, though we still expect to see a slight decrease in valuation ratios.

4. What does a seller need to do before selling a minority or majority stake?

There are multiple considerations when selling a company besides the target valuation for the business: the role the owner will play after the transaction, legacy and plans the seller would like the company to achieve (and therefore what's the best type of investor), the level of involvement current ownership wants to keep, plans and communication for the existing management team and employees, and the intended timeline all play a role.

Before selling, the owner (with the help of a seasoned M&A advisor) will want to get clear on the goals and timing of the transaction. The owners may set these goals on their own, but the perspective and experience of an M&A advisor will help set realistic expectations and avoid costly mistakes.

Ahead of preparing for a deal, [pressure-testing the P&L](#) is always a good idea. From there, it'll mean working on marketing materials (teaser and Confidential Information Memorandum), and there's a need to be ready in advance — company data and documents need to be organized to cause a positive impression and save time in the Due Diligence phase. Simultaneously, the M&A advisor will get a buyer list in preparation for going to market.

5. What does a buyer need to do before pursuing M&A opportunities in foodservice?

In short, source and screen. The buyer will assess the market landscape looking to narrow down the segment with the best prospects and within that the possible targets (risk, benefits, and potential for ROI). Leveraging an advisor with industry-specific expertise can be key to accessing deals before they get to a bidding stage (therefore obtaining more favorable valuations).

6. What are the valuation methodologies for a restaurant chain?

There are three valuation methods widely used across business sectors:

1. **Cost Approach:** Considering the market value of assets, intellectual property, and intangible assets — not commonly used in restaurants
2. **Market Value Approach:** Using comparable transactions to derive a value using multiples including EV/EBITDA, EV/Sales, or P/E
3. **Discounted Cash Flow Approach:** Projecting cash flows and using a WACC rate to obtain a fair present value factoring in same-store sales growth, new openings, and changes in operating costs

A range of values for the restaurant chain will be obtained from each valuation model and the expected valuation for the business will most likely be agreed upon in the intersection of the results. Having support helping to prepare for an investment can help to establish parameters and a fair valuation for your business.

Ghost Towns and Ghost Kitchens



The busiest professional service firms in the world are soon to be those that are renegotiating commercial leases.

Ready to Get Started on a Transaction?

We help middle-market foodservice companies and investors with both buy- and sell-side M&A advisory services. Our clients include restaurant chains, foodservice technology providers, and alternative foodservice formats. We also specialize in multi-national, multi-brand portfolios, and cross-border transactions.

Our restaurant and foodservice industry [M&A advisory](#) services include:

- Investment Thesis Ideation
- Market Landscape Scanning
- M&A Readiness Assessment
- Investor Presentation Development
- Deal Sourcing and Target Identification
- Commercial Due Diligence
- Operational Due Diligence
- Value Creation Strategies
- Post-Acquisition Integration
- Board and Management Installation
- Growth and Expansion Planning
- Go-to-Market Strategy
- Performance Optimization
- Portfolio Planning and Rationalization
- Operating Partnerships
- Board Participation and Advisory

These Are the Moments When Market Share Moves the Most

For those who have really good forecasts about where the market is headed —and are looking for more than just quarter-to-quarter returns — now is the best time to leapfrog forward and ahead of competitors of today and tomorrow.

Some teams may go into a boardroom and say very little in hopes of avoiding controversy or risking political capital. Others will look for the best data and advisors they can find to propel their organizations forward. Strategic planning can and should be exhilarating. Here are some resources that can be helpful:

- [What's Keeping Restaurant CEOs Awake at Night?](#)
- [How to Not Be a Boardroom Mushroom](#)

- [Questions to Ask During a Restaurant Brand Audit](#)
- [Weak Company and Strong Plan vs. Strong Company and Weak Plan: Who Wins?](#)

And if you're hellbent on moving your company (and our industry) forward with meaningful contributions to shareholders and stakeholders alike, as well as the communities you serve, we'd be delighted to help.

LEARN MORE ABOUT HOW WE CAN HELP

Join nearly 300k global restaurant industry executives and investors

The Aaron Allen & Associates newsletter is one of the most anticipated weekly reads for those in the know. We cover what's shaping markets, evolving consumer trends and dining behaviors, and solid strategies for understanding and thriving in the future of foodservice.

[Get Today's Intelligence on Tomorrow's Trends](#)



Aaron Allen, a third-generation restaurateur, has personally led more than 2,000 senior-level strategy engagements across 70 countries and 6 continents and is one of the most frequently quoted and sought-after restaurant experts in the world. Interested in working with Aaron Allen & Associates? Let's do something great together.

Start a Conversation



Aaron was honored to be included among LinkedIn's Top Voices 2018, a small group of thought leaders credited with sparking engaging conversations on the world's largest professional networking site. He was one of only two voices in hospitality (the other being Arne Sorenson, the CEO of Marriott International), and the only in foodservice. [Follow him](#) to get the latest updates on the global foodservice industry.

The World's Leading Restaurant Industry Advisors



Insights · Innovation · Ideation · Investments · Implementation

We've helped our clients post in excess of **\$200 billion** in revenues collectively, in **tens of thousands of locations**, spanning **100+ countries** worldwide.

Who We Are

Aaron Allen & Associates is a global restaurant consultancy specializing in brand strategy, turnarounds, and value enhancement. We have worked with a wide range of clients including multi-billion dollar chains, hotels, manufacturers, associations and prestigious private equity firms. [Learn More](#)

What We Do

We help clients imagine, articulate, and realize a compelling vision of the future, align and cascade resources, and engage and enroll shareholders and stakeholders alike to develop multi-year roadmaps that bridge the gap between current-state conditions and future-state ambitions. [Learn More](#)

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