Foodservice CEO

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Dealmaking and breaking: Guidance from strategic buyers

Last year was a tough one for mergers and acquisitions, with deals down more than 50 percent from the prior three-year average. While analysts expect M&A to level out this year, activity in the first half of 2023 has been slow amid continued inflation and other ongoing operating challenges. As a result, restaurants looking to enter the market, whether as buyers or sellers, will have to be prepared to ask and answer detailed questions in a stringent lending environment.

In a recent webcast from Franchise Times, strategic buyers from Ampex Brands, Dine Brands and Savory Restaurant Fund weighed in on how restaurant businesses can prepare to make a deal – and also shared the warning signs that indicate it may not be the best partnership.

Eric Easton of Ampex Brands looks for "puffery" in the numbers when considering an acquisition. In other words, he says, "when everything in a CIM is a pro forma, run." Potential sellers can present a more compelling case by compiling complete financial metrics for the business. The restaurant's growth plan should be built upon actual results as opposed to rosy projections or ideas that still need to be fleshed out. Be ready to share information.

Understand what rights you and your investors have to proceed with a deal. Is there anything standing in the way of your planned growth strategy?

Have a team in place to back up your claims and ensure you're presenting information accurately and in the proper format. Your brain trust should include an investment banker, an accountant who can validate your results, and a lawyer with M&A experience who can support your compliance and manage legal paperwork.

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Small brands, big potential

Winning over banks when lending options decline

Amid rising interest rates, lending relationships are about more than singular transactions these days. As credit has become more expensive – and will likely become more expensive – banks are considering the value of their overall client relationships. They may well be looking for business opportunities beyond loans to help support their offer of credit.

Smaller restaurant brands are more likely going to feel the pinch of this than their larger, more established counterparts. Banks are moving deposits to where they can generate the best returns, leaving less capital to lend to small and mid-size companies. The prospect of a recession, as well as of the potential for additional bank failures, places additional pressure on these smaller brands.

That’s why it’s especially important for smaller brands to focus on lender relationships too. This could involve franchisors proactively scheduling one-on-one discussions with a range of lenders to discuss the brand and where it’s going. Building stronger connections across a range of lenders can help ensure that when franchisees need capital, their business has already cultivated a base of lenders who understand the brand and how it is evolving.

Franchisor-franchisee relations: Could yours be better?

These haven't been easy times for franchisees, from having to manage steep cost increases over the past year to making post-pandemic pivots to sustain traffic. But franchisors have been somewhat shielded from these headaches – and there is an opportunity for them to more proactively understand the issues franchisees are facing. As Bank of America's Cristin O'Hara put it in a recent webcast, "There is a disconnect between the franchisors having some great earnings because of their royalties and the franchisees going through some real pain."

In this environment, it can be difficult to see the situation from the other party's side, which makes it easy for tensions to escalate. That's what some bankers are seeing now. One example: Franchisors are eager for franchisees to honor their development agreements, but franchisees with liquidity problems must weigh staying the course against taking steps to grow through the addition of new technology, remodeling or other changes. Many franchisees are finding that their development line of credit isn't available right now, which in turn hampers their plans for growth.

We're also in an odd place historically: It's unusual for franchisees to have a lot of cash on their balance sheets, but that has been the situation for many operators who received Paycheck Protection Program funding and could apply those funds to a range of needs. Having this sort of ready cash is not something franchisees and franchisors can accept as the status quo.

This push and pull makes it all the more important for each party to understand the other. Right now, franchisors can support their franchisee community by understanding how they are being financed, providing support in managing M&A activity, as well as helping them access capital by talking with their lenders and potentially entering into tri-party agreements with them. Above all, keep lines of communication open so you're aware of the other's pain points and ensure no major problems are falling through the cracks.

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Find your ideal balance of labor and tech

As summer approaches, restaurants are expected to keep adding jobs – even if the economy slows. The National Restaurant Association projects that by the end of the year, the foodservice industry workforce will grow by 500,000 jobs. This would bring industry employment back to pre-pandemic levels.

As you serve guests this summer, use it as a period to calibrate your technology-to-labor balance. The industry is at an inflection point worth watching: While brands such as Sweetgreen unveil automated makelines and other automated processes infiltrate all corners of the back of the house, we'll begin to see patterns in how human roles in restaurants are changing – and where guests do and don't want face-to-face help and interaction.

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Go into a meeting with a clear understanding of the other party's core appetite and how you can help each other. If you waste the other party's time now, you may limit your opportunities to partner down the line, once your brand has developed into what might be a better fit for this business.

Finally, avoid surprises. Taylor DeHart of Savory Restaurant Fund said it's a bad sign when unfortunate issues surface late in the process. Material financial differences, for example, should be discussed at the outset, and HR issues such as failed disciplinary actions coming to light can damage the trust that all parties need for a smooth transition. Talking through potential problems early will give you time to work things through as partners..

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