

THE IPG REAL ESTATE GUIDEBOOK

ON

Restaurant Evaluation



I. Purpose of the Guidebook.

This guidebook is to help us help you. Our goal is to sell your business at the **highest possible price** while being realistic about the market, demand for your type of business, and your timing. These are the three most important factors that must be taken into consideration when determining a value.

II. How Businesses Are Valuated.

We have an old adage, **“a properly priced business is half sold”**. As a business owner/seller, there is no doubt that you have put in a lot of time, effort, and money into creating and building your business. Unfortunately, when it comes time to selling a business, quite often sellers have a lack of information and it may cloud their judgment resulting in an over-valuation. There are many different ways to value a business. Some include:

- Income
 - This process is looking at your income/profits and given these numbers, what your business is valued at.
 - Some industry experts state the value of a business is a multiple of its profits.
I.E. $2X \text{ Profit} = \text{Value}$.
 - Some industry experts use the capitalization rate (cap rate). I.E. A 20% cap rate or in other words, profit divided by 20% = value.
Please note the Valuation Worksheet has a preset cap rate of 20%, and this should be adjusted according to the present market.
- Comparative Sales
 - Comparative Sales looks at how other specific businesses in your industry are doing, what their sales looks like in comparison to yours etc.
- Industry Standards/Formulas
 - Suppose you own a restaurant, how do the sales and expenses compare the rest of the general industry?
- Recreating/Starting From Scratch
 - Suppose you were to start this same business from scratch, how much would this cost you? Is it similar in price to start over?

All of these methods are useful and accurate, but here at IPG, we believe that valuations based on earnings are the most helpful. The attached **Valuation Worksheet** is going to look at your gross income and earnings. There is no precision in determining an exact figure for a business. Appraisers are licensed by the state of New York to come up with a solid figure for financing purposes, but our goal for you, is to come up with a range of values.

III. Industry Benchmarks

Buyers will be examining specific areas of your business and whether or not those areas are above, below, or in line with industry standards. On the **Valuation Worksheet**, this will be automatically calculated for you.

IV. Filling Out The Valuation Worksheet

Attached, you will find a Valuation Worksheet to fill out. The only boxes that you should be concerned about filling are the ones highlighted in **yellow**. Everything else will adjust on its own.

We hope this guidebook helps you in understanding the challenges in evaluating your business. Feel free to contact us with any questions. We will be more than happy to help with each step.

Sincerely,

George F. Donohue
President