WHAT IS MY BUSINESS WORTH? Part I

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At some time every restaurant owner is going to ask "What is my business worth?" This question is really a composite of three underlying inquiries:

"What would it cost to replace my restaurant?"
"How much should a buyer pay me in exchange for my cash flow?" and
"What is the Fair Market Value to me and to the buyer?"

Appraising a business is usually done, using three distinct methods to address the underlying questions proposed above. Each method provides unique data existing in the business at appraisal time. Combining these methods and evaluating the conditions, an appraiser can recommend a realistic selling price.

Method I uses the REPLACEMENT approach to find value. Following are the steps to take:

Step I. Make a list of all Fixtures, Furnishings and Equipment referred to as FF&E. A form such as that in *Exhibit A* is used with the headings described.

EXHIBIT A: Format for determining REPLACEMENT VALUATION

Amount	Item	New Real Price	Total Real Price	%COND	Present Real Value	Intrinsic Value	Appraised Value

Step II. The cost of each new item purchased is found from manufacturer's catalogues. The list price can often be 20 to 40 percent off the list price because of competition and special deals. This column is called "NEW REAL PRICE."

Step III. The "AMOUNT" of items is multiplied by the "NEW REAL PRICE" to get "TOTAL REAL PRICE."

Step IV. Note the present condition of each item compared to that item purchased new. Give these items a grade of from one through 10 points decided from the condition of each item inspected. A grade of one is the worst grade possible or almost ready for the scrap heap. A 10 is the best grade or practically in perfect condition. This grade is entered in the *Exhibit A* in the column "% COND".

Step V. Each item is assigned a present "value" determined by multiplying the "NEW REAL PRICE" found in Step II by the Condition Grade point ("%COND") expressed as a percentage as determined in Step IV. List these values under heading "PRESENT REAL VALUE."

However, the value in Step V, is only an interim figure for an operating restaurant. It has a value apart from the depreciated value accepted for tax purposes. Because of the training and supervision given to employees, the buyer may find that these assets were used with care, cleaned and maintained thoughtfully, so that after many years they are almost as valuable to the operator as when they were purchased even three or more years previously. When such a restaurant is placed on the market for sale, the asking price reflects the "intrinsic value" of the restaurant's equipment, fixtures and furnishings in-place and operating.

A sophisticated prospective buyer of that restaurant, will accept the asking price partially determined by the intrinsic value of the physical assets. The potential buyer will examine the physical assets and evaluate them compared to what they would cost in today's marketplace. He or she knows that consolidation, delivery and installation can add 12% to the actual FF&E costs. The estimated start-up cost of refrigeration may be $1,000 to $2,500. The costs of sales tax must be added at the local community rate.

No restaurant can open for business without the cost of the MECHANICALS package that is a prerequisite for the later installation of the fixtures and equipment. The mechanical package includes electric, plumbing, HVAC, hood exhaust motors and sheet metal at a substantial cost. Finally, must be added the costs of the *build-out* for floors, walls, ceilings, and other trades to complete the interior. To the base costs must be added sales tax, delivery and installation costs. All these costs can be 25% to 50% additional of the costs of the FF&E.

When all these sums are added to the FF&E package, the results are a realistic REPLACEMENT valuation for a restaurant operating *in place*.

Continued next month.

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