STEP BY STEP

Guidebook

For Selling Your Lenny's Subs for the Most Money in the Shortest Amount of Time

Overview

You may be a long term franchisee who is finally ready to cash out after a successful career or because it's time to renew. It could be that you, like many others, thought your children would take over the business when the time was right. You may be in a partnership that used to be just right and is no longer working. It could be you're tired of the hours, team members that aren't as dedicated to your brand or costs going up. You may want to sell or worse yet, you could *need to sell*.

Unfortunately, there's no instruction manual for selling a restaurant. At least there wasn't until now. This guidebook will take you step by step through the process of selling your Lenny's Subs franchise. We are the restaurant brokers and we have listed and sold more restaurants than anyone else in the nation

We've written this guidebook for selling your Lenny's Subs franchise to give you the tools for selling your restaurant and we have lots of experience doing just that. This guidebook is written for anyone planning to market and sell their restaurant on their own or use the services of a restaurant broker. The goal is to make sure that either course you take, you will get the most amount of money and sell your store in the shortest period of time.

If your restaurant is cash flow positive, we want to also help you get the most money for your business and teach you how to demonstrate those earnings to potential buyers. At the end of the day, a restaurant seller is offering one of two things to buyers:

•If your business is cash flow positive and generates a living for yourself and your family, you're selling a job.

•If your restaurant is losing money and isn't generating enough income to provide for someone else, you're selling a franchise opportunity and used equipment.

> *There are no bad opportunities, there are only opportunities that are badly priced.*
>
> *Eric & Robin Gagnon*

Since those are the only two options – a job or used equipment, we need to make sure the pricing is correct. A buyer will only pay for cash flow you can prove . As a franchisee of a major brand, your numbers should be easy obtainable. We'll show you how to critically examine these so you know what you're putting on the market. Here's our guide to selling your Lenny's Subs franchise, step by step.

Step 1

Short List of Needed Items

- Two Years of Tax Returns
- Most Recent (year to date) P&L
- POS report for same time periods as Tax Returns & P&L's
- Copy of Your Lease
- Copy of Your Franchise Agreement
- List of Furniture, Fixtures and Equipment that transfer in the sale
- Copies of any ongoing obligations (POS rental agreements, leases for equipment to be assumed)

The first step in selling your business is to pull the key items neatly together in either electronic or paper format. Remember, the buyer is asking you to prove the value of the business, the value of the lease and franchise and it's transferability along with the physical assets they are buying. They also want to confirm any liabilities they are incurring. Put together the list of items shown on the left and you have just completed a critical step in selling your restaurant.

It may have been years since you looked at any of these documents so get your reading glasses out as the next step in the process is to look through these items with the discerning eye of a buyer. You want to anticipate the questions up front. A strong broker will do this as part of the valuation process but it never hurts to be prepared.

The easiest way to handle all of this is electronically. Set up a dropbox folder and drag these files into it so you can give access later on to your broker or a potential buyer. In sales, time is your enemy. The last thing you want to do is attract a buyer and then start scrambling for due diligence materials.

Step 2 Review

Start reading the materials we gathered as part of step one as if you are seeing them for the first time. For most franchisees, you'll have a lease you haven't given any thought to in a few years. You may have a franchise agreement you haven't read since the day you signed it. You could have a relationship so strong with your accountant that when the tax return comes in, you write the check and sign off. Things are about to change. Now buyers are going to be studying those documents and looking for trouble. You're a Lenny's Subs franchisee so you know a little something about putting out fires. The best way to deal with a fire is to prevent it from starting. Step two in this sales process puts out fires before they start.

Review your lease and determine the "escalation clauses, renewal clauses and transfer clauses" carefully. Compare your POS report to your P&L and tax return. There are very sound reasons these numbers won't sometimes match but find the answer in advance.

Look at your P&L as if you are seeing it for the first time. Does it pass the "reasonability test"? Are food or labor costs artificially low? Are Repairs and Maintenance unnaturally high? These items affect earnings and need to be understood and explained to a potential buyer.

When Numbers Don't Match

If your numbers don't "match" perfectly, it's not a 3 alarm fire. It's simply important to have answers up front so buyers don't sense any "funny business."

For example, a store that has a high catering volume for a college or university that's exempt from sales tax will not have matching sales tax filings. It's an easily asked and answered question if you prepare in advance.

Gross and net sales are two different numbers. What is at the top of your P&L? Is it net of voids, comps, employee meals, sales tax, etc. or is it gross with some items "below the line?" Prepare in advance to avoid putting out fires on the fly once a buyer is interested in buying your store.

Feeling Overwhelmed?

REMEMBER

If the idea of this much study feels a little overwhelming, don't worry. An experienced and diligent restaurant broker will be studying this information and asking questions long before a buyer comes into the picture.

You should expect questions from your broker about the business if he or she is doing their job. They will always confirm rent, franchise and P&L details as part of their listing process.

Brainstorm

Step 3

Put on your thinking cap on ways you can improve your business. This is actually a very good exercise whether you are looking to sell or not. If your Lenny's Subs is running on autopilot, there's a chance (just a small one!) that you are not pushing as hard as you once were to grow sales and maximize return. Buyers want to know there's "opportunity" in the future even if they aren't willing to pay for it. For most businesses, this relates to recommendations to grow top line sales. Sales is the number one "fix" for almost anything on the P&L.

If you are listing the business for sale by owner or placing it with a broker, these small nuggets of opportunity resonate with buyers. They don't want to buy the business that is maxed out, doing it's best, never to be improved upon. This means you may have to throw yourself under the bus a little here in order to let a buyer know there is room on the table to grow.

One of our longest stores on market was a franchise that was beating his entire peer group in food and labor costs. The owner is a multi-unit operator who speaks at the National Restaurant Association on managing food and labor costs and he's incredible efficient. This store took longer to sell because potential buyers could not see any "upside" in taking over the operations. Everyone wants to buy low and sell high. How can they do that if there's no future growth? Don't skip this step. It's one of our secrets for selling for the most money in the shortest amount of time. We'll even give you some ideas.

Examples of "Upside" for the New Buyer:

1. We don't push catering as an opportunity to grow top line sales. Other Lenny's Subs in our peer group do x% of catering and we're at y%. That opportunity is worth xyz in sales growth.
2. As an owner, I'm not in the business on nights and weekends. There is increased staff count, more waste and higher food costs for those hours. A new operator can take better control of this.
3. My commitment to Lenny's Subs and my community involvement has not been up to par for the past x years because of y. I know a new operator will see better returns from connecting with the community.

Get Ready to Learn Restaurant Math

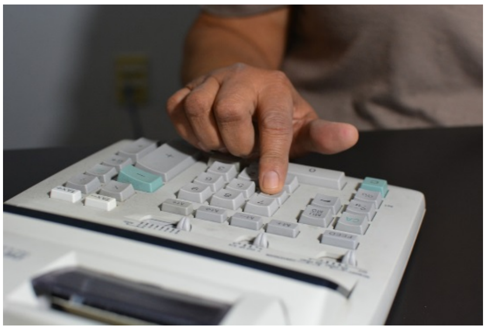
Step 4

Math

It's official. Restaurant valuation is a math problem and there is a right and wrong answer. We want to teach you how to get the most money by selling your restaurant in the shortest amount of time. The process is the same whether you sell on your own or use a restaurant broker in the transaction. Either way, this business often represents a big piece of your own financial wealth. You owe it to yourself and your family to get the most you can for the restaurant. Even if, or especially if, a restaurant broker is doing the valuation and pricing the business you need to know enough to challenge their assumptions and make sure they have the full picture.

That's why you should know as much about valuation as possible before putting your restaurant on the market. The pricing is THE MOST IMPORTANT element of selling your business quickly and for the most money. If the business is overpriced, it will simply sit on the market with no activity. If you don't price it high enough, it will cost you and your family valuable income.

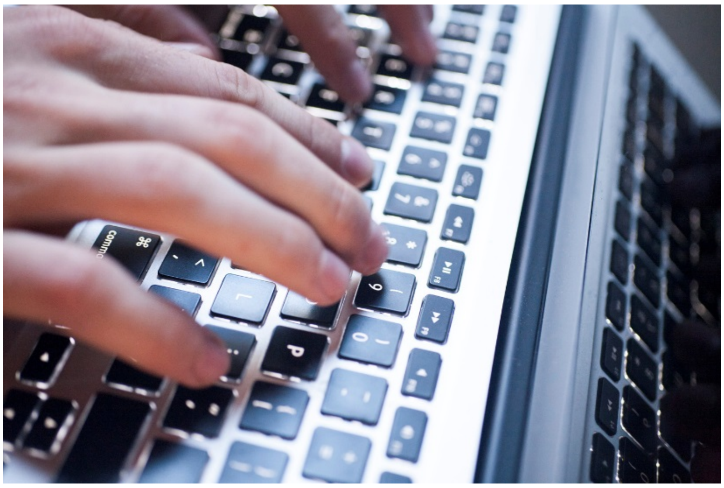
The basic principle of restaurant valuation for a cash flow positive business comes down to this. How much will the new buyer earn once you leave the business? While that seems pretty straightforward, it may take some work to get to a number that satisfies you as a seller as well as the buyer.



Add Backs & Restaurant Valuation

The United States Tax code works very hard to force business owners to minimize their earnings in order to avoid taxes. This is counterintuitive to buyers who are seeking the highest earnings possible when purchasing a business. How do you marry the two ideas? The rule of thumb for this is called the calculation of "add backs." The simplest explanation of an "add back" is this.

An add back to the business bottom line is any expenses on the P&L or tax return that goes away when the seller goes away. This can take something from negative to positive earnings quite quickly. Some common examples of these include: Depreciation, Interest, Taxes, Owner Salary, Owner Benefits (car, telephone, personal expenses) or one- time (non-recurring) expenses. Add backs take P&L's or tax returns that are losing money and convert them to ones that are making money.



The Owner Operator Model – the Basis for Recasting

One highly important point to remember is that all valuations are calculated based on a single owner/operator model. That is the basis for SBA lending and thus, it's the same method used to make sure every set of restaurant financials is being measured the same way. The salary of one single manager is added back to the earnings to accurately reflect what a new owner will earn.

If you work in the business and don't earn a salary, we can' t add back a manager's wages. If you don't work in the business and still draw a salary, we can add back both you and the manager's wages.

One very easy way to consider add backs is this. Are there expenses that will go away when you go away from the business? Of course! You will no longer get a salary or any W2 income. If you have a loan, the interest will no longer be deducted. The business will no longer pay the lease on your automobile (if that's the case) or cover your cellphone expense or put gas in your car. Any of these can be added back to the new owner income.

If an expense is necessary to the business, it must remain in the P&L as an ongoing cost and cannot be "added back" to the earnings.

The starting point for adding back to the income can be the bottom line of the P&L or the year end tax return. Here are the most common add backs.

- Depreciation
- Amortization
- Interest but not loan payments (new owner will not have your loan; he'll have his own)
- Owner Salary
- Owner Personal Expenses (cellphone, life insurance, health insurance, car lease or similar)
- One time or unusual expenses (one time roof repair, one time HVAC replacement)

The reason it's important to have a restaurant broker that knows the business is that he or she is familiar with customary ranges for restaurant costs. If you use a broker that sells everything from dry cleaners to convenience store, you may need to educate them. A savvy broker should pick up on numbers outside the norms. Here are some examples.

- Food Costs would not normally be added back but if a cooler failure resulted in a one-time restock of $8000, we can add that back.
- Ongoing Repair and Maintenance of the Hood and HVAC is not added back but if you replaced a roof last year, it will be added back.
- Accounting fees are reasonable and customary but if last year's numbers include an IRS audit that doubled your fees, we can add it back.

See how this works? It really is a math problem and we can get to an answer pretty quickly.

WE SELL RESTAURANTS®

How Much is My Restaurant Worth?

Okay. We're nearly done with valuation but this is really important. The valuation formula gets you to the bottom line. Now that we have the real bottom line "owner's benefit" for the new buyer, it's time to apply a multiple to that.

We multiply the SDE or Owner Benefit times a market specific and comps specific number to get the valuation. This number is called the "multiple." As a seller, you want the multiple to be as high as possible. Buyers on the other hand, want to discount the multiple as low as possible. It is not a hard and fast calculation however.

Seller's Discretionary Earnings times a multiple = the Restaurant's Value

Valuation Formula
Total Net Income (from Tax Return or P&L)
+ Add Backs (expenses that go away when you go away)
+ Salary of a Single Operator
= Seller's Discretionary Earnings

Also sometimes referred to as Sellers Discretionary Cash Flow or Owner Benefit or Adjusted Net Income

Many items weigh into the multiple applied to the SDE (Seller's Discretionary Earnings). The multiple is not a hard and fast number and changes based on any of the following:

- Saturation of concepts – if everyone sells their sandwich shop at once, demand is lowered.
- Saturation of stores – Too many stores in a single market or area *could* affect demand
- Timing – First quarter and third quarter are strongest for restaurant sales
- Strength of books and records (refresh yourself on Step 2)
- Comps – A reason to use a broker who is selling restaurants
- Single or multiple units - The sum of the parts (selling stores individually) is usually higher than the sum of the whole unless you're selling five or more stores.
- Geography – Certain markets are just 'hotter' for franchise resales than others

That is not a hedge to say we can't give you the multiple but we really need to know what store you're selling in which market. Just give us a quick call and we'll do a free valuation for you and take all these factors into account.

Step 5 Hire

Interview Restaurant Brokers

You are now armed with just enough knowledge to be dangerous so it's time to move to Step 5 and interview restaurant brokers.

We have prepared as part of your transfer kit a 'Cheat Sheet" for brokers that includes all of the following questions and more. Ask any restaurant broker you are about to trust with your business these key questions and consider the answers thoughtfully before signing the listing. Remember, we're trying to sell for the most money in the shortest period of time.

- What is your experience and understanding of restaurant valuation?
- How many restaurants have you sold?
- How many franchise resales have you transferred? How many Lenny's Subs?
- Do you have a financial services or banking background? MBA, Finance or Accounting degree?
- How do you define seller's discretionary earnings?
- What are reasonable and customary add backs you use in determining owner's discretionary earnings?
- What is the average time on market for your listings?

How many restaurants have you sold – not listed in the past 6 months is a critical question.

- What's your process for assuring me confidentiality on the listing?
- What is the multiple you are using and why?
- Do you have a statistical resource for comps?
- How large is your database of buyers specifically looking for a restaurant?
- What are your other marketing channels outside of an Internet posting?
- What authority do you have as a restaurant broker personally?
- What is your closing percentage?
- What are the names and telephone numbers of three recent sellers for restaurant sales?
- How do you measure success?

Selling on Your Own

Too Many Irons in the Fire or the Right Choice for You?

You may choose to sell your Lenny's Subs on your own. If so, you will need resources including: legal help to draft confidentiality agreements and sales contracts, accounting help for the valuation and marketing to get the listing noticed. You'll juggle all of this while keeping your employees from finding out and maintaining store performance. A strong restaurant broker handles this and more on your behalf.

Market

Step 6

The next step in the process is marketing your Lenny's Subs for sale without anyone knowing.

Marketing your Lenny's Subs for Sale gets a little tricky. On the one hand, you want to write an appealing ad that brings people to the business and gets them excited about buying. On the other hand, you don't want to let the world know your restaurant for sale. This is where you have to pretty genius in writing ad copy to attract buyers to a listing without telling them what it is. Lastly, your ad should be search engine optimized so it's rich with keywords that drive restaurant buyers to look at the ad.

Once buyers are attracted to the business, they should undergo scrutiny before you release the business details. You don't want a competitor or non-serious candidate taking a look at your financial data and historical returns. Buyers should be prequalified financially and sign a confidentiality agreement or nondisclosure document before they learn any details about your business. At We Sell Restaurants, we make sure every person who gains access to your listing both signs a confidentiality agreement and meet the Lenny's Subs financial qualification.

Your Lenny's Subs for sale should be advertised on any number of strong websites (like ours – wesellrestaurants.com) but the ad should mask the actual address and sometimes even the city until a buyer has prequalified. The last thing you want is for someone to walk into your store mid-shift and full of customers saying, "I hear this business is for sale."

A qualified restaurant broker has the documents and marketing savvy to handle this step in the process for you.

Step 7

Offer

This is the step everyone gets excited about, the offer. Here is our best advice to you. An offer should come to you from a broker or buyer in writing and accompanied by an escrow check. As restaurant brokers that have sold hundreds of restaurants, this is another hard and fast rule for us. Verbal offers aren't worth the paper they aren't written on. We also have little respect for so-called "LOI's" or Letters of Intent. Both are opportunities for a buyer to get a lot of information from you with very little commitment on their part. If someone's serious about buying, they need to put the offer in writing and accompany it by a good faith deposit. We only bring our sellers written offers from buyers that are financially prequalified.

Once the offer is received, it's time to review and counter. Make sure that everything is being handled in the offer including who's paying for and handling the following:

- Inventory
- Due Diligence Time Period
- Lending – with timelines
- Security Deposits
- Notification to Employees
- Franchise Approval
- Landlord Approval

In our opinion, a seller should ALWAYS counter unless you're getting a full price offer with every term you want. It's your opportunity to get the most money in the shortest period of time.

> *"Accept offers only in writing accompanied by an escrow check and always counter."*

Eric & Robin Gagnon

Due Diligence

Step 8

Advice for Due Diligence

If you are not represented by a broker or are represented by an inexperienced one, you may be tempted to allow due diligence to come before an offer. This is a mistake. Do not start due diligence based on a weak LOI or before you are in contract.

In our experience, the more information provided to the buyer before commitment, the less likely he or she is to actually buy the business. If they are not committed enough to write a contract, do not release your financial information, employee lists, any tax filings or anything else that could compromise your business. If a broker asks you to do so, seriously consider finding a new broker.

Once the contract is signed between the parties, due diligence will begin. Due diligence is the time when buyers want to look under the hood, peak under the covers and literally dig into everything about your business. If you followed the process outlined in this guide and carefully focused on Step 2, you're going to be in pretty good shape on this one. What you don't want to do is have the buyer dig for reasons to tell you, "well, I discovered this in due diligence so it's not worth as much as I thought before so I want to reduce my offer."

Our advice for due diligence is simple. Make the time period for due diligence short and turn around what the buyer wants quickly. The longer the delay, the more time the buyer has to think about more things he wants. A strong restaurant broker will control this process and act as the conduit for information. He or she will also tell you what's reasonable versus what's a fishing expedition.

Step 9

Bank Lending and Approval

Prequalifying a business for lending is clearly one of the most important steps you can take in getting a business sold. It allows leverage in the business, meaning you have to find buyers that have only 20% or 30% down versus the full amount.

If you're selling a business for $300,000, that means that instead of looking for a buyer with close to $400,000 (the payment of the business, deposits, funds on hand to qualify for the landlord). Instead, you're looking for a buyer that has about $100,000 (20-30% down, plus deposits, plus cash). How many more buyers are there out there with $100,000 versus those with $400,000?

On the other hand, you must be very aware of how much capital a buyer needs. This is another reason it's good to have a neutral party in the middle of the transaction as many times buyers do not want to give their sensitive information directly to a seller.

At We Sell Restaurants, we prequalify every listing for lending. We work with preferred SBA lenders that do not pull together packages and mail them to SBA underwriting but have the ability to underwrite the full loan locally.

For our buyers, we can have a Lenny's Subs franchise for sale approved within 72 hours of the buyer application. Closing can occur within 30 days which is quicker than the candidate can get through the Firehouse Sub training.

Make sure the resource you're working with has strong relationships established with lenders familiar with restaurants (very important) and has a timeline for approval. You don't want to tie your business up on an offer that can't get to closing because the loan can't be approved.

Your acceptance of the contract is just the beginning of the road to closing. Then the heavy lifting begins. Buyers will need the approval of Lenny's Subs, the landlord's consent to assign and bank lending in place before the closing can occur. The entire deal hinges on these approvals.

Lenny's Subs buyers will apply exactly like a new franchise candidate, qualify with proof of funds and demonstrate legal residency. Then they will be invited to attend a Discovery Day and meet the founder. Then they will do their many weeks of training before the transfer.

A savvy restaurant broker will have strong knowledge of this process. They should have attended a Day of Discovery of their own so they are familiar with the experience and can share their excitement about the Lenny's Subs brand to get the buyer ready.

They will also have relationships and manage the flow of information to the bank and the landlord. At We Sell Restaurants, we package all of the buyer's information and make introductions to the bank and landlord. We provide full guidance on getting through the approval process. You don't want to pull others into a highly confidential transaction until contingencies are met and the deal is very secure.

That's why no outreach to any of these parties should take place until a written contract is in place and accompanied by earnest money. Then both franchise approval and franchise training must take place prior to closing.

Closing

Step 10

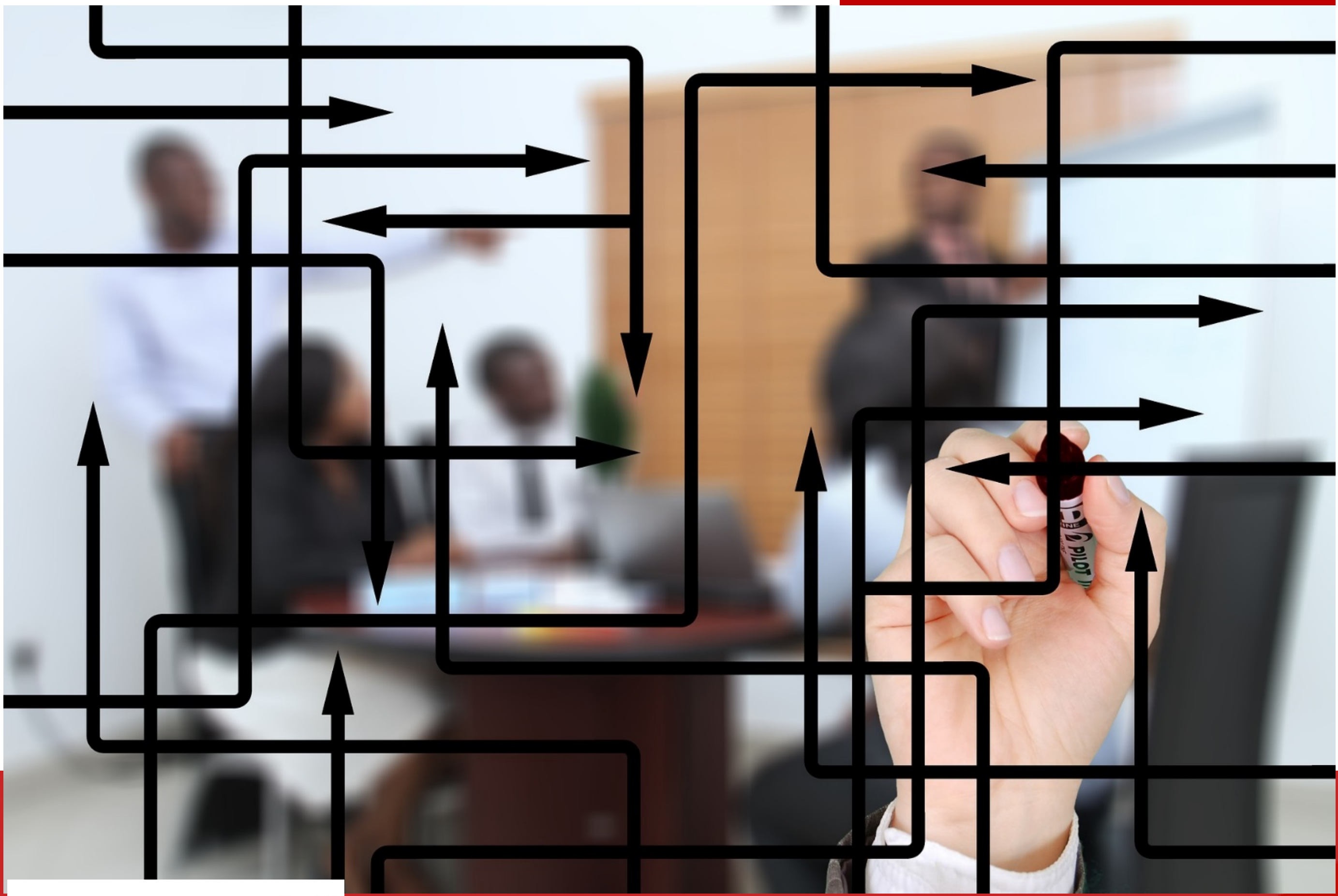
The last step in the process is closing on the transaction. This is the fun day! This is also a bittersweet occasion as the Lenny's Subs you have owned and nourished for some number of years is being handed off to the new buyers. Here's what you can expect for the closing.

At We Sell Restaurants, our process to get deals to closing includes weekly calls with the buyer and seller starting with the week the deal goes in contract. That way both parties are at the table to answer any questions, tie up any due diligence and make sure that critical items related to the closing take place. In addition, we take the franchise checklist for closing and fold that into the process so nothing is missed in the transition. There's nothing worse than taking over a store and finding that the POS sales are still funding to the seller's account. We believe our process, which results in a 90% closing ratio, eliminates those problems.

SETTLEMENT STATEMENT ITEMS

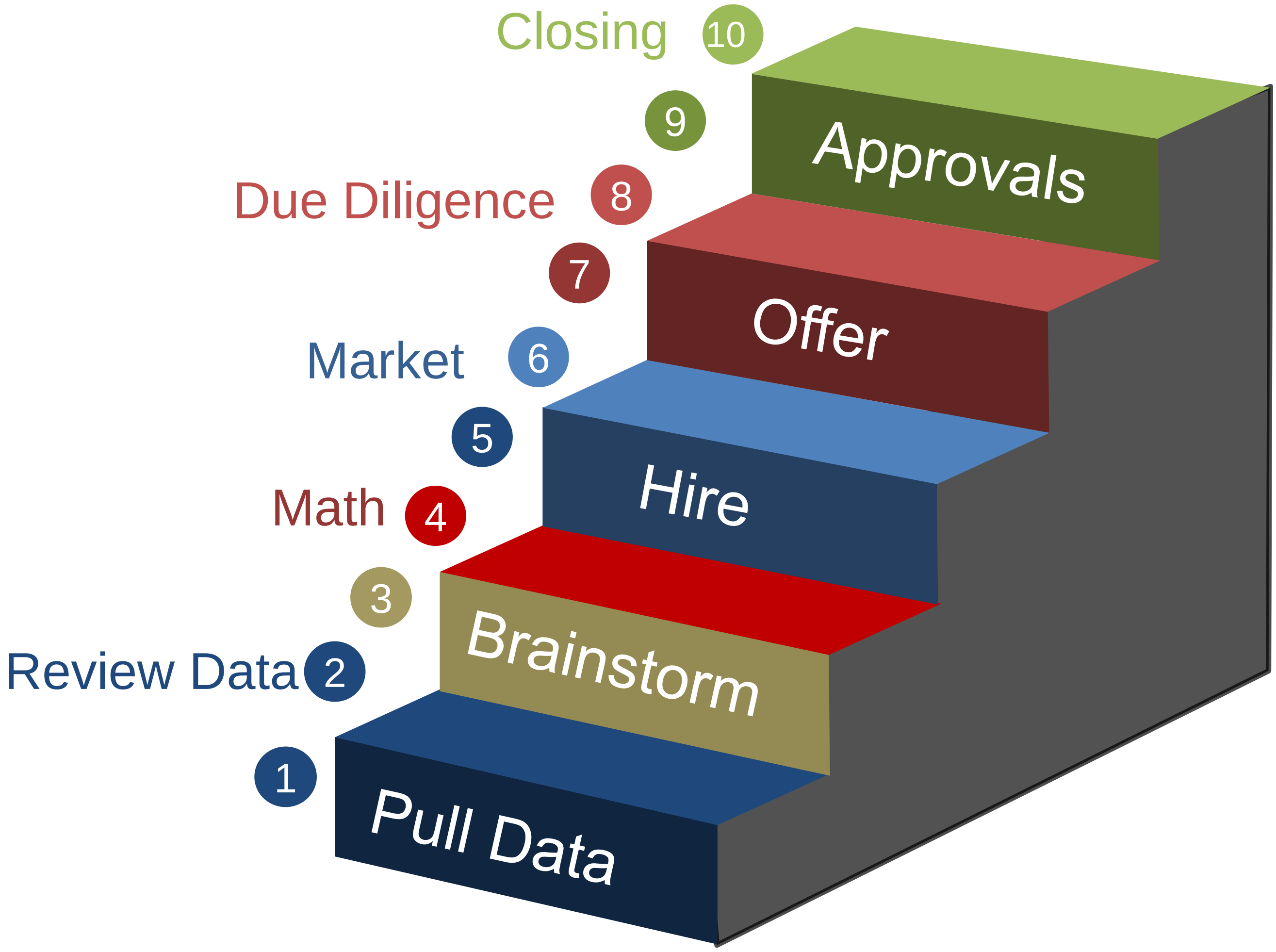
As part of the closing process, certain items between the buyer and seller will be handled in the settlement statement between the parties. This is similar to a reconciliation you might see on a house closing. Expect your broker to follow up with you about a week or two before closing and clarify all of the following items. You can start assembling this information as soon as you go into contract. The last thing you want is to show up at closing and fail to recover all your funds. You'll need to be reimbursed (based on the contract) for:

- **Inventory on Hand**
- **Cash in your Drawers and Safe**
- **Security Deposits**
- **Rent Proration (based on closing date)**
- **Transfer fees(based on the contract)**
- **Any other reimbursable expenses**



Review

That's it. Those are the key steps in selling your Lenny's Subs to help you get to a successful closing. We hope this has been helpful for you in understanding how to get the most money for your restaurant in the shortest amount of time. To review, here are the steps in order from start to finish – one through ten.



If you have any questions about the process or want more information on selling, reach out to the restaurant brokers online. You can also request a free, no obligation valuation of your Lenny's Subs franchise by clicking this link. We're happy to help! Remember, we're your first responder for franchise resales.

About the Authors

We Sell Restaurants Founders and Restaurant Resale Specialists, Eric and Robin Gagnon are known across the United States for their knowledge of the industry and willingness to share.

This dynamic duo and husband and wife team are the country's leading restaurant brokers. Eric and Robin are the founders of We Sell Restaurants, the nation's largest restaurant firm focused on selling restaurants. Popular hosts of the syndicated radio show, "We Sell Restaurants" for a number of years, they guest host, write, blog, speak, train and present on topics of interest to the industry. Their book, Appetite for Acquisition was named Best of 2012 by Small Business Book Awards and has a five-star rating on Amazon.

These veteran industry experts have defined the term "Restaurant Brokers" with their unmatched experience, knowledge and count of restaurants sold. Members of the International Franchise Association (IFA), the Southeast Franchise Forum (SEFF), the Women's Franchise Network (WFN) and the International Business Brokers Association (IBBA); they have presented workshops and served on multiple panels for these organizations nationwide where they share their expertise. They have been designated as Industry Experts by Business Brokerage Press in the areas of Franchise Resales and Restaurant Sales. They created and developed training for brokers to obtain the credential of Certified Restaurant Broker.

The two have trademarked their brand, We Sell Restaurants® and are franchising nationwide. They share their knowledge through one of the most extensive training programs available to the industry. Their multi-platform training program leads to the nation's only Certified Restaurant Broker™ designation.

WE SELL RESTAURANTS®