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If you're considering selling your business in the next three years, experts say now, rather than later, may be the best time.

## Memo to franchisees: Is it time to sell?

By Charles S. Modell

**A**re you a successful franchisee who has thought about selling your business, or "taking a few chips off the table"? If so, then for a number of reasons, this may be the best time for you to sell.

Interest rates are on the rise, but they are still at relatively low historic rates. At the same time, the stock market has not produced exciting returns in 2005. As a result, investors are looking for new types of investments and there is more money available to finance business acquisitions today than in recent memory. Adding to a good investment climate is the fact that there are more types of buyers for franchised businesses than there are for non-franchised businesses.

### Finding traditional buyers

In years past, franchisees had to market their businesses themselves. Few business brokers really understood franchising. Franchisees had to advertise for prospective buyers, while competing with hundreds of franchisors looking for the same buyer, and without the marketing budget of all those franchisors.

The task of finding a buyer for a franchised business has changed. First, with the advent of the Internet, there are more ways for franchisees to find buyers. However, there are now also national companies that specialize in the sale of franchised businesses. Sunbelt Business Brokers, with more than 300 offices internationally, is one such company. This year alone, Sunbelt has helped franchisees in a variety of industries sell their businesses, including restaurants, printing shops and a number of other service and retail concepts.

Although Sunbelt works with franchisees of all sizes, they specialize in helping franchisees with one or a handful of units sell their business. According to Scott Evert, Sunbelt's

national director of franchise sales and resales, "there are many buyers with great management experience and access to cash, who want to buy an ongoing business, particularly with a recognizable name."

Evert also agrees the investment climate is right for selling franchised businesses: "If I were going to sell my business in the next three years, I would choose now," advises Evert. "The economy is still good, but one cannot count on the future. There is a lot of investment money available in both the private equity area and the high net worth individual. Prices are also still good. Buyers today, particularly the individual buyers we deal with, are willing to pay a higher multiple of the unit's earnings than in the past."

### Buyers unique to franchising

In the early years of franchising, most franchisors were looking to sell new franchises in order to expand the number of units operating under their flag. On occasion, franchisors would buy back a franchise unit, usually only to solve a problem, or when they had an opportunity to resell the unit. Today, many mature franchisors have no room to open new units. Some of these companies are finding they can increase their profits by reacquiring profitable franchised units and operating them as company-owned units. In doing so, these franchisors are also providing a valuable exit or early retirement strategy to their franchisees.

Existing franchisees in your system may also be in the market to acquire your business. When revenues from their franchise units reach a plateau, the only way they can grow is by adding units. While they can acquire a franchise from their franchisor to open a new unit, they can grow even more quickly by acquiring existing units. Indeed, many franchisees have found they can create economies

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of scale in the operation of multiple units, and they can therefore afford to pay a relatively high multiple of earnings for an existing franchise unit, knowing that they will be able to reduce expenses and therefore increase profitability.

### The new buyers

Some multi-unit franchisees have simply run out of buying opportunities within their own system. Since these franchisees understand the franchise model, it is natural that when they look to expand, they will still want to stay in franchising. They may then turn to other brands in the same industry. This is particularly true in the restaurant industry, where many of today's largest franchisees operate multiple concepts, including Pilot Travel Centers (Subway and Arby's restaurants), Quality Dining (Burger King and Chili's Restaurants), and Doherty Enterprises (Applebee's and Panera Bread). And the easiest way to expand quickly into another brand is by acquiring existing units.

The newest players in the market for successful franchised businesses are investment bankers and fund managers. **Nick Peters, president of Prometheus Partners, L.P.**, in Atlanta, operates a number of investment funds that have purchased franchised businesses. Peters' newest fund, **Windward V**, recently completed the purchase of 24 IHOP restaurants in the Carolinas.

Peters is looking for other opportunities for Windward V: "We are looking for businesses that have consistent, sustained revenues. Successful multi-unit franchisees that operate under a strong, recognized brand, are of particular interest to us. Especially when they have strong management. In many cases, the seller will stay on with us, either to help with the transition, or ideally, to continue operating the business." Peters continues, "in our ideal model, the seller will reinvest a portion of his proceeds in the company we form to buy the business. That way, he has a chance to take some chips off the table, but stay involved in a potentially much larger business."

A number of years ago, a fund Peters

managed owned 70 Wendy's restaurants. While his target investment includes non-franchised businesses, he has a particular fondness for the franchise model: "When we buy a franchised business, we are buying into a recognized brand. However, we are also buying a potential for add-on acquisitions that will increase the value of our investment, because we know there will be opportunities to acquire other franchisees in neighboring cities, or even neighboring states."

### No time like the present

As franchising matures and is more understood by the general public, there are more prospective buyers for franchised businesses. For smaller franchisees, there has never been a greater variety of purchasers for their business than there are today. For larger franchisees thinking about retiring in the next few years, or wanting to essentially bring a majority partner such as Prometheus into their business, now may be the time to consider cashing in some or all of those chips. Obviously, the supply of prospective buyers not only makes it more likely that a franchisee will find a buyer for their business, but an imbalance of buyers can also help drive up prices.

Business cycles ebb and flow, as does the market for the purchase and sale of businesses. For a franchisee interested in selling his business, there may be no time like the present. **FT**

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