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TO BUY

POINTS TO CONSIDER WHEN BUYING A HOSPITALITY BUSINESS

Concept

- What part of the hospitality industry appeals to you – do you want a liquor primary facility such as a pub or do you prefer a food primary business such as a restaurant
- If choosing a restaurant, do you prefer high end or casual dining, fast food, ethnic food

Location

- Do the population demographics indicate a need for your concept in this location
- Is there sufficient parking to service your facility

Size

- Should it be small (under 25 seats), medium (25 – 100 seats) or large (over 100 seats)

Budget

- How much disposable cash do you have to invest in the business
- Do you have access to additional money available for cash flow if needed

Lease

- Is the lease period long enough to amortize the cost of buying the business
- Will the Landlord assign the existing lease or allow you to negotiate a new lease
- Will the Landlord extend the term of the present lease or give you an option to renew
- Do you have to give a personal guarantee on the lease

Valuation

- You should seek the advice of a business broker to ascertain if the asking price is fair
- The valuation would include the furniture, fixtures and equipment (FF&E), goodwill of the business and leasehold improvements etc.
- Can you see the potential to take the business to a new level

Financial Statements

- The seller should offer at least 2 or 3 years of financial statements for review by you and your accountant or advisor
- The financial statements should include Profit & Loss statements and balance sheets if possible

Equipment List

- A list of equipment and chattels that are included in the price of the business could be provided to you prior to making an offer but, if not, you should receive a copy shortly after drafting an offer to purchase. Either way, it should be a condition of the offer that you approve the equipment list.

Financing

- Have you explored a business loan if required (see FAQs for more information)
- Do you have the ability to borrow from your bank or other sources
- Is some Vendor take-back financing a consideration

Types of Sales

- **Asset sale –** this is how most hospitality businesses are sold – for an agreed upon amount of money, you are buying all the assets and goodwill of the business. Ownership of all these assets transfer to the new owner at closing.
- **Share sale** – this is where the Vendor sells the shares of the company which actually owns the business and all it's assets. There can be some beneficial tax ramifications for the Vendor which, depending on negotiations, can be shared with the Buyer. There may be some inherent liabilities of buying the shares of a company. Each case is different and a buyer should rely on the expertise and advice of his lawyer. This type of sale can offer some creative options for both parties and again, this should be discussed in length during negotiations.

Licensing

- What licenses will you need
- For applications for the City of Calgary business license and AGLC see FAQs
- Should I buy an existing business or build new

see FAQs

What advisors will I need

- A Realtor (business broker) who will find and negotiate the best deal for you because of their connections in the industry
- A lawyer who is familiar with real estate law and hospitality sales who will offer expert counsel and guide you through the legal terminology
- An accountant who will help you review the financial records of the business you are considering buying. He will also assist you in keeping records for efficient tax preparation and also help you with "break-even" analysis
- A banker, preferably in the commercial field, who can assist you with applying for business loans and lines of credit etc.
- A building inspector – particularly if the real estate is involved, an inspector would be strongly recommended
- An equipment inspector may be valuable in inspecting the equipment you are buying in the existing restaurant or pub

What kind of profit can I expect
With the knowledge that there are 100 cents in a dollar, in the restaurant business you can expect the following:

- 35 cents will be spent on cost of product
- 25 cents will be spent on labor
- 10 cents will be spent on rent
- 15 cents on general and administrative overhead costs (G&A)
- 15 cents or 15 percent profit
- The above are average expenses on a restaurant facility as it's well-known that cost of product for a pizza/pasta

operation would be less than for a steak house

Non-competition clause

- Your purchasing contract should ensure that the Vendor is not going to open up a competing business within a certain proximity to the business you're buying for a pre-determined period of time.

Preparation for buying a business

- Prepare a business plan which will include your hospitality experience and your financial capability. This will be required by the Bank if you are applying for a loan and also for the Landlord if you are leasing space.

Deposit

- Upon acceptance of an offer, a deposit is given to the listing Realtor's company which is then placed in their "trust account". This deposit is totally refundable during the condition removal period while the buyer is conducting their due diligence i.e. reviewing the lease and getting the lease assigned; getting their financing approved and any other conditions on the offer. Once all the conditions have been met and removed, then the deposit becomes non-refundable and applies towards the purchase price.

Costs involved

- Your lawyer will charge a fee to complete the transaction and represent your interests
- Each side of the transaction has their own lawyer
- City of Calgary has a business license fee (info. on their website)
- AGLC charges a fee to get a liquor license
- Fire inspection – at the present time (2007) this costs $106 if done prior to closing and it's free after closing
- Health inspection – no charge
- Inventory – food and beverage unopened inventory is paid for by separate cheque at the time of closing. It is calculated at cost. Opened inventory is usually removed by the Vendor or, if the Buyer wishes to take the possible liability (tampering etc.) of opened inventory a flat amount can be negotiated at the time of closing.
- Should the facility you are buying have VLTs, then a deposit for each machine is required. This amount can vary and you should contact AGLC for the deposit amount needed for the VLTs for this particular facility. The deposit can be in the form of a Letter of Credit.
- Real estate commission is usually paid by the Vendor who has contracted the listing business brokerage company to sell their business
- Buyer's Brokerage **–** this is a fairly new concept which is growing in popularity. The Buyer contracts a commercial Realtor to find them a viable business and the Buyer pays them a pre-determined amount at closing.

Final Walk-Through

- At the closing of the sale and after the Bill of Sale and Statement of Adjustments has been signed by both parties and the funds are in the hands of the Vendor's lawyer, then a final walk-through is done to ensure that all furniture, fixtures and equipment are in place as represented

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Some questions to ask Gord: