PAST, PRESENT AND FUTURE
Factor Into the Value of a Bar Business

Successful bars often have colorful origin stories that include maxing out personal credit cards, getting vendors to extend credit against all odds, family and friends pulling together to come up with startup capital and bold crowdfunding initiatives paid off in t-shirts and private parties.

When it comes to buying, selling or expanding an existing business or investing in an established bar, the tales become less about entrepreneurial daring and more about what stories the spreadsheets tell.

Before any of these major life events for a bar business can happen, there needs to be an expert valuation of the business.

The science of valuation is not exact, says William Bruce, president of the American Business Brokers Association. However, there are some guidelines that can apply to most businesses and some specifics to bar and restaurant businesses.

Bruce, who operates nationally from offices in Baton Rouge, La., and Fairhope, Ala., writes that a formal and independent valuation is needed in some highly formal transactions such as U.S. Small Business Administration loan applications, estate planning, divorce or in sorting out issues with the dreaded Internal Revenue Service.

For many purposes, however, a few simple rules of thumb will suffice.

1. The first step is to determine a bar or nightclub's discretionary earnings, which includes the total cash generated by the business annually after deductions for necessary operating expenses. Some expenses businesses write off on their taxes aren't strictly "necessary" and shouldn't be taken into account for a business valuation. The amount of cash that is left over could be used as payment to the business owner, return on investment to everyone with a stake in the company and servicing any existing debt. Here is a link to Bruce's guide on determining what discretionary earnings are:
2. Apply a multiple to the discretionary earnings to determine the value of the business. Different types of businesses have different multiples, but most bars and restaurants appraise at 1.5 to 3 times discretionary earnings, Bruce writes. Where a bar falls in that range depends on the type of bar, the location, the size and revenue trends.
3. Gross revenue also can be used to arrive at a valuation, but Bruce says there are too many assumptions to get an accurate read. Bars typically appraise at 35 percent to 45 percent of gross revenue, while full-service restaurants with a liquor license come in at 30 percent to 35 percent. The big assumption here is that the business has a bottom line the same as the average for its peer group – which isn't always the case.
4. Whichever method you use, the next step is to add in the appraised value of any real estate and inventory, such as food and liquor at cost, to arrive at a final figure.

"However, you as the owner, seller or buyer of the business are the final arbiter of what the business is worth to you," Bruce writes at his website williambruce.org. "Remember, these guidelines are only averages and the guidelines certainly don't take into account any special considerations or any future plans that an owner might have for the business. What a particular business might be worth to you may be more or less than it's worth to the next person who looks at it."

What are some issues your bar or nightclub is facing? Do you have some tips for success you'd like to share with fellow TBNA members? Email Travis Poling at beeracrosstexas@att.net