Obstacles to restaurant M&A

STERLING CORPORATE SOLUTIONS

SECTION 1: Institutional Deterrents

1. **Size:** Independent restaurants are too small to justify the overhead required from institutional investors. Due diligence alone can make a material difference in the ROI.
2. **Limited returns:** Organic growth is limited by physical capacity, and capital intensity deprives investors of increasing returns to scale.
3. **Uncertain exit:** The secondary market for restaurants is niche, IPOs and SPAC mergers are almost always out of the picture.
4. **Revenue volatility:** It's a cyclical and usually seasonal industry. Restaurants are the first to go down with the ship during economic downturns. This is attributable to an inflexible cost structure and heavy working capital needs.

SECTION 2: Structural Deficiencies within the Asset Class

1. **Market fragmentation:** High competition and no market power leading to razor-thin margins.
2. **High debt loads:** Buying a restaurant almost certainly involves paying for its accumulated losses. It's usually not worth the discounted equity.
3. **Lack of financing opportunities:** Exclusion form capital markets pushes owners toward hard money, merchant cash advances, or vendor financing; all of which worsen long-term survivability.

SECTION 3: Operational and Legal Landmines

1. **Unstable Labor Supply:** Independent restaurants lack the purchasing power, career path, or appealing perks of large chains. Qualified workers avoid smaller establishments.

2. **Opaque financials:** No legal requirements to comply with GAAP, cash transactions enable fraud, and a lack of internal controls hinders financial reporting reliability.
3. **Hidden liabilities:** Salient cases of tax arrears, under-the-table wages, public health fines, labor law violations that can surface any time post-close. The bulk of due diligence is about finding buried corpses rather than assessing financial performance.
4. **Landlord power:** Location is primordial for restaurants, property owners are well-protected, which subjects establishments to unexpected rent hikes.
5. **Key person risk:** No SOPs, succession plans. Agreements with suppliers may be based on personal relationships.

SECTION 4: Why We Still Do It

At Sterling, we don't romanticize restaurants. We engineer around them.

We built proprietary corporate structures that convert dysfunction into leverage.

Our deals produce three- to four-figure expected returns not in spite of the chaos, but because of it. We turn those difficulties to our advantage.

We buy what others fear, restructure what others avoid, and weaponize what others overlook.

In the process, we save jobs, break monopolies, and give owners a second shot on terms they never thought possible.