Capital cost as a valuation driver

Transcript

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I think that a lot of times when we talk about valuation we talk about profitability, we talk about growth. But sometimes we forget about the cost of capital. And that's what's interesting about what we've got going on right now, is that interest rates and the cost of capital is still relatively high, certainly high compared to coming out of the pandemic. And so that is really a challenge, especially in the restaurant space, because when you need capital, whether it be for working capital needs to fund your payroll or make investments and expand your business, you've got to have a reasonable cost of capital. And even though the Federal Reserve continues to decrease the Fed funds rate, what you see in the corporate bond market, as well as the equity rates of return, that's not really coming down.

And so, year over year, you're static. You might even argue that in some portions of the market, especially in the small business market – the high yield where you need high-yield debt – that market actually is as challenging and the rates you get there are about what you'd have to pay back in, like, 2008, 2009. And so until you really get, in my opinion, until you get that cost of capital down some, that is going to be a hindrance. Forget about the profitability and growth, because you need that cost of capital to come down some to really, I think, for M&A to take off in the space.