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## Daiquiri Deck owners argue 'fair value' of one owner's stake in company



**Gabriela Szymanowska**

Sarasota Herald-Tribune

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The owners of an iconic Sarasota-Manatee restaurant chain appeared in court this week to argue their cases to determine the “fair value” of one co-owner’s 30% stake in the holding company which owns and operates five restaurants.

The owners of the Daiquiri Deck restaurant chain include Russell Matthes and Troy Syrett – Sarasota natives who became friends in elementary school – and Matthew Grover, a native of Maine. They are now arguing over millions of dollars in ownership rights.

In September 2021, Matthes was terminated from the company and a month later, Syrett and Grover filed a lawsuit against Matthes accusing him of sexually harassing an employee and other inappropriate behavior, exposing them and the company to potential liability.

**Previous reporting:** Two of the owners of Daiquiri Deck sue the third, who countersues them

**In case you missed it:** What does Daiquiri Deck mean for Anna Maria Island?

The lawsuit also stemmed from both sides not being able to reach an agreement regarding a buy-out for Matthes' 30% interest in SMG Companies Holding LLC. The two-count complaint against Matthes in part was to dissociate him from the company and remove any remaining management rights, according to a memorandum for the hearing.

Matthes denied the claims, and in turn sued Syrett and Grover for allegedly violating the company’s contract and breaching the fiduciary duties they owe to him, among other issues.

The purpose of the proceeding was for Sarasota Judge Hunter W. Carroll to determine the monetary value of Matthes’ 30% interest in SMG Companies Holding LLC. The other 70% of

the company is split between Syprett, who owns 60%, and Grover's 10% interest.

A ruling for the hearing won't be made until the new year as both sides were allowed to respond to questions Carroll asked during closing statements with a five-page memorandum.

Each party had their own expert testify about the evaluation they performed to determine the value of the company and Matthes' claim. The two experts come up with significantly different numbers that differed in millions of dollars, according to memorandums filed in the case.

Matthes' expert determined the value of SMG, as of March 20, 2022, equaled \$24.17 million, thus making Matthes' claim to be \$7.25 million, according to a memorandum filed by Matthes.

In contrast, SMG's expert determined the value to be \$11.175 million based on the projection the company won't be able to match the gross revenue it achieved in 2021 for the next seven years, according to the same memorandum. That would mean, along with discounts applied to Matthes' interest, his 30% would be \$2.065 million.

## **What do the experts say about the valuations?**

On Tuesday, Matthes' expert Debbie Foister, a senior manager of forensic services in the HBK Valuation Group, explained that while this was her first time testifying as a valuation expert for a lawsuit involving a restaurant, it wasn't her first time doing a valuation for such a business.

The question at the center of Foister's evaluation was whether the year 2021 could be used as a sustainable year to project future earnings for the Daiquiri Deck and if it could be used to calculate the value of the company.

When trying to determine how to value the company, Foister looked at the historic performance of the business and decided to use a single-period valuation approach looking at one year's cash flow to determine future profitability forecasts. Based on what she learned from SMG's tax documents, Foister decided 2021 would be the best year to use for her calculations, she said.

When asked by Syprett and Grover's attorney, Przemyslaw Dominko, why she didn't use a different year since 2021 appeared to be an outlier in how well the business performed, Foister gave several reasons.

In 2019, only four Daiquiri Decks were operational, and money was being directed towards renovations and the building of a fifth location in Bradenton. In 2020, while the fifth location did become operational, it didn't open until a few months into the year and the four stores that were open when the pandemic hit Florida were forced to shut down for four to six weeks.

Additionally, when Foister compared the first three months of 2021 and 2022 in a year-to-date analysis, the revenue was higher in January, February and March 2022 than the year prior.

Since the valuation date was up to March 20, 2022, both experts were expected to only look at factors leading up to that date. Foister's team did perform what she said the industry calls a "sanity check" by calculating April, May and June data to see if the forecast they calculated would hold but did not rely on that information in their valuation determination.

Foister added she did independent research too by reading Herald-Tribune articles on what was happening locally sent to her by Matthes, looked at Visit Sarasota and the Chamber of Commerce websites on projected tourism statistics, as well as seeing what the Federal Reserve in Atlanta was projecting. She also referenced IBISWorld, an analytical organization that "provides trusted industry research on thousands of industries worldwide," according to its website.

Dominko pointed out that the EBITDA percentage, which can indicate a company's long-term profitability and its ability to generate cash, was much higher in 2021 than in previous years and higher than the industry average.

The industry average for EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation and Amortization, is 4.9%, according to part of Foister's report used in the memorandum document. In previous years, SMG's EBITDA percentage remained fairly close to the average. In 2018, it had been 4.8%, in 2019 it was 5.4%, and in 2020 it was 4.5%. Then the following year in 2021, it jumped up to 17.6%.

**Previously:** New Daiquiri Deck slated for Siesta Key

**New developments:** Major tourism improvement projects move forward in Manatee County

Based on all her research and calculations, Foister did conclude that 2021 was the best year to use for the single period cap to do the valuation and that it would be sustainable for future forecasts of the company.

In contrast, Robert Sly — a financial services professional with The HCI Group based in Jacksonville, who testified on behalf of Syprett and Grover — found that the projected revenues for SMG would decline in 2022 and 2023, which is why he valued the company at a lesser amount.

Sly used a table graphic, which he's used for many years, to help with calculations to determine future revenue. While Foister used SMG's tax returns, Sly used the company's financial statements to determine the company's historical performance in revenue and filled in information for 2020 and 2021. He then sent the table to Syprett and asked him to fill in the rest of the table.

Based on the numbers and calculations, it appeared "Syprett projected that revenue would fall by 8.5% from 2021 to 2022, and Sly adjusted that decline from 8.5% to 6%," according to court documents.

Sly also used a discounted cash flow methodology based on SMG's historical performance and margins, as well as the forecasts Syprett helped to prepare, according to a memorandum filed for Syprett and Grover. A discounted cash flow method estimates what the value of a company is based on what its expected future cash flows will be.

Sly also used discounts for lack of control and lack of marketability on the 30% interest, unlike Foister who was advised not to by counsel.

A lack of marketability discount is applied to companies that aren't publicly traded, so the discount is usually applied to show the lack of market, according to CFI, a provider of practical learning and productivity tools for finance and banking professionals. A lack of control is applied for when it's a minority shareholder in the company.

Sly applied a 23% discount for lack of control and a 20% discount for lack of marketability, according to court documents.

"Don't look at what they tell you, look at what they do," Morgan Bentley, another attorney representing Matthes, said during his closing in reference to SMG's "gloomy" future projections that revenue would not reach 2021 revenue levels for some seven to eight years. And despite the less than optimistic outlook, Bentley said, Syprett still took out more than \$5 million from SMG as a loan to use to acquire property near the Bradenton Riverwalk for a real estate project that would include building a new Daiquiri Deck and a boutique hotel.

*Gabriela Szymanowska covers the legal system for the Herald-Tribune in partnership with Report for America. You can support her work with a tax-deductible donation to Report for*

*America. Contact Gabriela Szymanowska at [gszymanowska@gannett.com](mailto:gszymanowska@gannett.com), or on Twitter.*