

# Investing in the Car Wash Business

## Section # 3 – Today’s Car Wash Business & Self-Serve Investment Model

*Source: notes taken during a 09.27.07 Business Seminar conducted by Fred Grauer, Executive Vice President – Investor Market, Conveyors, Ryko Manufacturing Company*

### Today’s Car Wash Business Model

Goals:

1. To be profitable
2. Match revenue to investment
3. Create an exit plan
4. Maintain accurate financial reports
5. Continue to drive revenue to meet appreciated values
6. Create wealth

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***Remember...you are in the real estate business. Therefore, any buyer is going to look at your net income to support the investment!***

### # “Wash Days” per year (national averages)

- 310 Washing days in “Normal” year
- 250 Washing days in “Rainy” year

### 3 Ways of Valuing a Car Wash Business

- Replacement
- Comparables
- Revenue (cap rates, EBITDA, multiples)

### Valuing a Car Wash Business by using “Multiples”(for a full service carwash)

#### 1.) Multiples of EBITDA:

- EBITDA s/b 10%-15% of Gross Revenues
- Rarely in U.S. can one be found at 40% of Gross Sales
- Most businesses sell for 3.5-5.0 times EBITDA
- Carwash business sells for 7.0-9.5 times EBITDA

#### 2.) Multiples of Sales method is not used.

#### 3.) % of Net Operating Income (NOI) or “Cap Rate”

- The “Cap Rate” for a full service carwash is 9.5%

### EBITDA & Cap Rate Examples

Assume that the financials for an existing FULL SERVICE CARWASH are the following:

\$1,000,000 Gross sales

400,000 Labor & Management

170,000 Supplies & Utilities

150,000 Insurance, advertising, taxes, mnt credit card

160,000 Principal & interest (or rent)

\$ 120,000 Net before taxes

1. Return on cash  $120K / 400K = 30\%$
2. Estimated value based upon EBITDA =  $7 \times 120K = \$840,000$  + assets
3. Value of the real estate based upon 8% cap rate of rent =  $\$2,000,000$
4. Value of the business + assets approximately  $\$2,800,000$
5. Normal business EBITDA can be estimated @ 10-20% of gross revenue

## **Self Serve Investment Model**

- “B” property
- Non-impulse driven
- Typically less than \$10 per square foot except in high cost areas like Southern California
- Utilities a must, sewer very important depending upon community requirements
- Rooftops
- Traffic important but secondary for decision purposes
- We are in the business of selling time / renting space

## **Evolution of the Self-Serve Car Wash**

- Basic Functionality
- Limited Revenue Opportunities
- Limited Payment Methods
- More Bay Time / More Revenue
- Enhanced options, features and merchandising
- Credit cards and Cash in the bay
- Monitoring, Data Collection & Reporting
- Service Diagnostics & Alerts

## **Key Factors for Development of a Self-Serve Carwash New Location**

1. Population – 1 bay self-serve needs 1500 population in 3 mile radius
2. Access
3. Permitting
4. \$8.00 SF or less range
5. Non-traffic
6. Size parcel s/b ½ acre w/ 100’ frontage (100’ x 225’) to accommodate 5 bays laid out perpendicular to street frontage
7. Minimum R.O.C. / Private Party is 20%
8. Minimum R.O.C. / ExxonMobil is 17% (cash cost is less)

## **Self-Serve Site Example**

- Distinct Customer Base
- Destination (planned) Purchase

## **Self-Serve Considerations**

- Purchases are planned events
- Rule of thumb – 1 bay per 1,500 population in 3 mile radius
- Ingress / Egress – ease of finding site important
- Secondary locations, competing against other services
- Utilities, permits, space
- Typical Investment (b4 land) \$70-100K per bay (4 x \$85 = \$340K)
- Minimum ½ acre @ \$10 sq. ft. = \$220K

## Self-Serve Financial Model (“B” Sites) - Population Driven / Planned Activity

- 1500 population to support one bay (pop. 30,000 / 1500 = 20 Bays)
- Market Draw: approx. 90% within 3 miles = 9,000 population
- Average rev / bay in your market \$2,200 x 6 bays = \$13,200 / month (Rocky Mtn.)

### *Calculate your own Financial Model – Remember: Population Driven / Planned Activity*

- 1500 population to support one bay (population / 1500) = \_\_\_\_ Bays
- Market Draw: approx 90% within 3 miles = \_\_\_\_ Population
- Average revenue / bay in your market \$\_\_\_\_\_ x \_\_\_\_ bays = \$\_\_\_\_\_ / mo

#### Annual Projections:

- \_\_\_\_\_ / mo x 12 = Gross \$\_\_\_\_\_
- Estimated variable expenses (gross x \_\_\_\_%) = \$\_\_\_\_\_
- Estimated fixed expenses (gross x \_\_\_\_%) = \$\_\_\_\_\_

Estimated mortgage: Min. 20% required = \$\_\_\_\_\_ cash; financing 80% @ \_\_\_\_% over \_\_\_\_ years = \$\_\_\_\_\_

Land: 21,500 sq ft x \$10 = \$215,000

#### Building Cost:

- 6 bays (15 x 26 = 2340 SF) @ \$75 SF = 175,500
  - Equipment Room (10 x 26 = 260 SF) @ \$150 SF = 39,000
- \$214,500

#### Equipment:

- 6-SS Equip per Bay @ \$25,000 = \$150,000
- Vacuums 6 @ \$2,200 = 13,200
- Other (vending, controls, etc) = 15,000
- Misc. soft costs = 50,000

Estimated Project Cost = \$657,000

## Self-Serve Financial Model (“B” Sites) – Cash on Cash Return (R.O.C.) is 32.4% as set forth below

### *Remember: Population Driven / Planned Activity*

- 1500 population to support one bay (pop / 1500 = 20 bays)
- Market draw: approx 90% within 3 miles = 9,000 population
- Average revenue per bay in Rocky Mountains \$2,200 x 6 bays = \$13,200 / mo

#### Annual Projections:

- \$13,200 / mo x 12 = Gross Revenue of \$158,400 / year
- Estimated variable (gross x 30%) expenses = \$47,520 / year
- Estimated fixed expenses (gross x 10%) = \$15,840 / year
- Min. 20% required cash down of \$131,540, principal = \$525,460 (for financing 80% @ 8% over 20 yrs = \$4,366 / mo or \$52,393 / year)
- Estimated mortgage = \$52,393
- Net after all expenses = \$42,647
- Return on Cash (ROC) = \$42,647 / \$131,154 = 32.4%

## Transitional Planning

- What to do if the market is in transition?
- “B” sites becoming “A” sites
- Choosing the right business or planning for market growth is critical
- When is a “B” site no longer a self serve location?
- Activity change, “planned purchase” to “impulse purchase”
- Traffic
- Thinking outside the “BAY”