

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

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”