



## Planning your exit strategy

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### Feature

Creative financing tips to guarantee you the biggest bang for your buck when you sell your carwash business.

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Let's be honest: Financial lending markets have essentially dried up and gross sales over the last three years have consistently dropped 10-40 percent across the country. Anyone trying to exit the carwash industry has to take grasp of the reality of market values and the sacrifice of past inflated sales to current facts. The decrease of values especially in the full-service sector is affected the most.

Of course, there are a few exceptions geographically, but in general the full service carwash customer is more frugal than ever. Discretionary spending for carwashes at an average of \$18 is competing additionally with the new express \$5 wash concept customer and getting reintroduced to the "old fashioned" driveway wash.

With that all said, sellers motivated to sell due to the tight economy and evolving new built express washes, evolves a "pool of wash inventory" for a buying, selling at 30 to 50 cents on the dollar, compared to 2005 market values.

So, how do we prepare for an exit strategy in these trying times? First, let's throw out the idea of a bank financed sale, which is rare these days, and consider a seller carry-back (land contract). You still have three options:

- Keep the wash and hope for an incline of business;
- Find a cash buyer (but let's be real, there are no cash buyers); or
- Get creative.

### Getting creative

Sales in the 1990s to 2006 were built on good books and records, 20 percent down and a buyer with a financial statement to support the sale. Today, if the seller is lucky enough to not have any loans on the wash they can opt to be the bank and carry the note for the buyer. The traditional loan process is shockingly different than the 2008 era in that a buyer today has to have experience, a terrific financial statement, collateral, and a wash that has an inclining history of gross sales. But banks today are not doing a lot of loans.

Current owners trying to refinance their washes are all looking for a loan reduction and interest rate, too; a fantasy unless there is a short sale pending and the bank has to make a deal for a sale or get an empty property added to their REO department.

The most popular way to exit the market today is called the seller carry-back, commonly known as a "land contract." If the seller has no liens it is a relatively easy process. A sale price is agreed to, escrowed as usual; buyer pays the seller a down payment and future payments direct.

There is a synergy of win-win benefits to both parties here. Although each should consult with their respective attorneys and CPAs, the seller often will not have to report any taxable gain on the sale until they accumulate the percentage of cash from the buyer that exceeds their 'basis' on the wash.

Further, the seller will be gaining interest on the balance of the promissory note the buyer owes. In the unlikely event that the buyer defaults on the loan, the acceleration process to have the buyer return the wash to the original seller is not complicated since the seller retains title to the property until paid in full by buyer.

For the buyer's advantage, there are no loan points or excessive closing costs, the loan process is very quick and the lenders "muster of the transaction" is limited only to the buyer's due diligence satisfaction.

There is an expectation of the lender to have the seller take a promissory note in addition to the infusion of the buyer's down payment of 30 percent to make the loan. This is commonly called a "stand by note" which is usually about 10 percent of the sales price and repaid to on a separate 20-year note with monthly interest-only payments. This ensures the buyer can make their monthly bills and make a profit.

### **Reality check**

Recognizing the reality of exiting — and being prepared for it — is just as important as your entry efforts into the carwash business. Your job is never over.

I advise existing owners to consider reviewing the wash as if it were on the market for sale each day. Believe me, of all the washes we have sold in the last 28 years, most of the owners are in some kind of denial regarding the value of their business; whether it's customer satisfaction, the state of their equipment, the status of their competition, or the maintenance of their books and records, and most of all — denial of current market values.

Brokers and appraisers are licensed, thus they have to walk the line. But buyers and sellers have no way out when eager carwash equipment or chemical salespeople create inflated pro formas. Unfortunately, when these costly equipment packages do not match the pro formas they've been given, owners end up buried in debt, and buyers for new builds are stuck.

Every carwash has its own personality, created by the owner's business acumen and the geographic location. However, if the physical wash is over-built or the demographics in the neighborhood don't match up with the typical carwash customer, any exit down the road will be a challenge.

Competing and preparing for an exit is complicated. You have to think strategically about the value of your wash — and you can't just wait until it's time to sell.

I'll leave with the Golden Rules of Exiting:

- Keep accurate and quality books and records;
- Keep your fingers on the pulse of the market;
- Get expert advice; and
- Don't rely on pro formas.

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*Roger A. Pencek is founder, president and broker of Carwash Brokers Inc., which has corporate offices in Phoenix and operates 17 offices throughout the United States. CWB primarily represents sellers of gas stations and carwashes with values between \$800,000 and \$10 million per location. Roger can be contacted through the company website at [www.carwashbrokers.com](http://www.carwashbrokers.com) or by telephone at 602-787-1100.*