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## How to value a car wash

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So you want to know that a car wash (Full Service, Express and Self Service) is worth, operating or new build, the following should be a simple estimate of values you can use as a guide. Recently this year on October 12<sup>th</sup>, 2010 I presented a seminar at the Western Car Wash Association (WCA @ MGM convention Center) in Las Vegas Nevada as "How to value your carwash" as I have done for the past several years. As usual in the audience I found that the attendees were spit evenly between the Full Service (FS), Express (E) and Self Service (SS) eagerly wanting to know what the "current" market values were due to the economy. I delivered then as now the "how to approach" of valuing a wash as a neophyte with simple and reasonable tools in evaluating a washes value. Hello, values are down by 35-45% across the USA. Don't leave yet, I'm just getting started to defend that statement. I'm sure I'll get a lot of mail denial mail over this "reality check", but Banks and Appraisers both agree with me, I'm right. I am not nor is Car Wash Brokers Inc., is nor ever have had a MAI appraiser designation, but through our experience since 1985 in selling carwashes in the USA we offer this practical information.

The individual wanting a VALUE of a wash with paperwork supporting a current value, has several options, here are the 2 most common, MAI Appraisal or Opinion of Value. To appraisers credit they are Bank / Lender certified contractors who use a more intense appraisal report generally at a cost of \$2k-3,500 per location and do a superb job IF they have direst experience and history of appraising car washes. Conversely to the MAI appraiser, there is a common Opinion of Value (OOV) that we, CPS'a and Car Wash Consultants craft for a fee of approx \$800-\$1,500 per site which incorporate similar techniques we will discuss in this article, as a "acid test " of value for a seller wanting a current value of their wash, Buyer who would like a unbiased 'opinion of value' as to the value of a wash prior to making an offer, or a Lender who wants a spot check as to a current their portfolio of washes that they have loans on.

<u>Full Service (FS)</u>: Since 2008 there has been a severe 30 % decline in the FS wash market value justifiably due to the "\$18.00 wash customer" is not washing as much, and being slowly converted to the speed and economics of the evolving Express wash. There is one common way to determine a value by the income approach by which, FS washes are price valued on a multiple of EBIDTA (earnings, before,

interest, depreciation, taxes and amortization). Today 5-6 's EBIDTA is the reasonable multiplier contrary to the 1995-2008 cash cow days of the FS 8-12'xs multiplier. There is a easy way to establish this fancy EBIDTA equation, just take the total profit centers yearly gross sales of the wash, lube, conv store and detail times .33%, which reveals the EBIDTA. In the event there is fuel at the site take .08 cents per gallon and times it by the gross gallons pumped and add it to the gross before your times it times .33%. there is a few variables to keep in mind, the variance of 4-6 times the EBIDTA has some caveats that have to be take into consideration: competition, condition of the equipment, on site or absentee owner, road construction just to mention a few. Like all wash valuations the wash has to have a history of books and records fro at least 3 years or the reproduction approach has to be used. The value system relies on the cost to rebuild the wash. The respected equation is reasonable for a new build: Land (40-60K square feet @ \$10-25 PSF) + Building (\$150.00 PSF) + Equipment (\$450K) + Convenient Store (\$150K) + Lube (\$300K) + Landscaping (\$100K) + Signage (\$50K) + water and sewer hookups (\$100-200-400K) + Soft Costs (\$200K) + Start Up (\$150K) + ADVO (\$25k), well lets call it \$3-4M out of the box. Notice the greatest variable is the land cost that is quite different from the West coast land and the more rural areas of the Midwest. The Comparable approach is based on other washes that have sold on similar gross sales and time period, not so many right now, that's out.

In general this FS wash model has the most potential for income because of the average base wash of \$10.99 and its additional profit centers; however that also comes with a penalty of 40% of gross income as typical payroll. Therefore a break even before seeing a profit is to monitor the payroll and deliver exceptional service all in balance to achieve a minimum of 4,500 cars per month (goal 8-9K cars per month) with an average car wash ticket of \$18.00 with out lube, c store, lube, detail or fuel. Although SERVICE is the magic ingredient to success of the FS, on site ownership and the ticket writer are the keys and determine the fate of success or failure.

Express: This hybrid wash started evolving in around 2006 as an alternative to the long wash time and high priced Full Service car wash. It resembles the FS model except that it has typically a longer tunnel; about 140 feet and can wash 6-8 cars at a time and offering FREE vacuuming. The price point starts typically at \$5, \$7 and \$9 wash options. Pretty simple, for a 5 minute wash with a national average of \$6.30 per car, defiantly the "wave of the future". The key point here is the payroll of 11-15% for Express vs. the FS 40%, which makes this wash investment a superior value for the absentee owner. The income approach value is simple, take the gross sales of the last 12 months rolling (not the EBIDTA) times the multiple 4-4.3 and the value is computed. Of course again the wash has to have a history of at least 3 years which brings the wash into its prime. The wash is based on VOLUME of cars obviously times the average price per car. The goal here is to begin the wash at 8,000 cars per month for the first year and at the end of the 3<sup>rd</sup> year do 10,000 cars per month @ \$7.00 per car. In its infancy stages of growth the popularity of the express wash model by 2016 should optimistically consume 65% of the total car wash customer base. The reproduction approach as to the new build is Land (30-40,000 SF @ \$15-25 PSF) + Building (\$150K PSF @ 5,000 SF) + Equipment (\$450K) + Soft costs (\$100K) + Landscape and water hook ups (\$100-400K) + Advertising and start up costs with free washes for 30 days (\$50-75K). As you can see the reproduction cost is about \$2.4-3.2M, greatly depending on the cost of the land i.e., Geography of the wash location.

All around this Express wash model was crafted for rocket speed, convenience, economical, and security for the car wash customer since they stay in the car during the 5 minute wash experience versus the traditional FS wash. Here the value is determined simply by volume and average car washed per month as discussed above. The short fall here too is that break even for this E wash has to be at least 6,800 cars per month at \$5.85 per car. The ultimate 'sweet spot' for this E wash is 11,000 cars per month @ \$7.00 per car and with a few extra service upgrades totaling gross sales of average 12 months @ \$1M per year. The market value of this E wash can rationally achieve a \$4M price tag and EBITDA of \$400K (40%). If a buyer places \$1M down and finances \$3M @ \$20K per month debt service of \$240K minus the \$400K EBIDTA the investor here absentee should easily enjoy a minimum \$160K PURE profit which is 16% before any deprecation, ammonization or any other deductions, and this is a real estate secured investment, who couldn't be excited about this, especially as a absentee owner?

Self Service: The typical 4-6 bay self service (coin operated) car wash typically with a single in bay automatic tunnel is the one 30-40 years ago we would go with our Dad's and wash the car on the weekend. Often called "squirter "or "coin" washes evolved in rural areas in the mid 1950's as the "go to place" to wash the family car. Generally placed on a lot that was later to be assembled into a higher and better use down the road. As populations grew in the Urban areas, so did the SS washes. In the 1980's the SS washes were so popular demand for Full Service e grew and they shared a even customer base determined directly on the customers amount of services offered and willing to pay. Income approach of the SS wash values are today determined on a multiple of 3-5 times Gross sales. Remember the way to get the highest value it reporting ALL THE COINS, yupp .. even the ones that fall on the floor. The owners of these washes are generally on site and do all the collections and have had a habit of poor math skills, and you "don't get it both ways" as they say in my industry. There are ways of determining the true gross sales dependent on the % of owners water usage, utility bills and chemicals, but a expert in the wash industry can take a crack at that if needed, enough said. The reproduction cost today is almost prohibitive based on the following costs: Land (30,000 sf @ \$10-20 PSF) + Building and equipment (4-6 bays @ \$70,000 each per bay) + Building & Automatic (\$250K) + Water and sewer hookup and utilities to the site (\$150K) + Soft costs and zoning (\$100K) + Landscaping (\$50K), bottom line to build a SS 6 bay w 1 automatic w land about \$1.3-1.8M min. The obstacle today with the SS survival, is that the average customer in the Self serve bay spends about \$4.35 per wash and the automatic which washes only one car at a time \$5.00, has to compete with the aforementioned Express wash at a base wash of \$5 with FREE vacuuming.

In general, the SS customer today too is seeing the value and benefits of the Express model vs. the personal manual labor the customer has to perform for about the same price point of the Express to achieve the clean car. Notwithstanding, there is an essential element of the SS wash customer especially in Rural areas that has a need for machinery, ATV's and other sport related vehicles that will always require the SS applications. The problem the SS market has to address is that the gross annual sales to break even and a profit for the owner for a typical 4-6 bay self service with one automatic is \$160K, the industry standard for income is \$2K per SS pay per month and the total sum of all the bays per month is about 60% of what the automatic should gross. If you use that equation the gross sales for a typical 6 + 1 should be \$240K times a value multiplier of say 5 = \$1.2M. Remember that what it COSTS

to build a reasonable SS wash. That's a lot of quarters to have invested in a piece of Real Estate that is becoming more valuable to me a different use than a SS wash. In closing this is defiantly a mom + pop business with limited potential.

<u>Summary:</u> The above valuations are at best an *Art not a Science*, since each wash has its own personality and therefore a value is only an estimate. Rely on experts, Buyer Brokers, CPA's and car wash consultants who are unbiased to clearly evaluate the washes hygiene (books and records and trends) and PLEASE be careful of *equipment car wash salespersons*, who are eager to convince you they are an expert, only to provide an inflated embellished Performa; they are gone after the commission is paid and installation. There is no substitute for any of the above washes when it comes to ON SITE ownership vs., Absentee. The character and value is truly a reflection of the owner's mantra of service and marketing. The employee's of these washes are generally unskilled labor and need constant direction and leadership. Hence, the VALUE of these <u>aforementioned multipliers</u> are only estimates and to be used as a guide. The most important insurance policy for a buyer or owner obtaining a current value is to spend the \$ and hire an expert who is savvy to the wash industry and or pay for an Appraisal or Opinion of Value.

I will close with a comment on <u>Denial vs. Reality</u> on values. In the mid 1990 to 2003 the total car wash industry was in a "boom hay day of profits", an owner, buyer or builder could buy and flip a wash and make an easy 20-30% in a year. The rate of land increasing every year was a minimum of 6-8% per year, added to the 20% profit margins increasing each year, it was a roaring commodity. Today, land is flat to declining, economy the same and financing difficult. So the denial part is from the current owners that ether bought over the last 5 years high or owners in the wash business for many years hearing of inflated and high PAST sales, that cannot comprehend the current 'price adjustment reality check'. Unfortunately, retirement, divorce, partnership dissolutions, health and burnout, just to mention a few, does not have any warning when a sale is involuntarily forced, reality then prevails .There is no negotiation to the Golden Rule "get an expert to evaluate each model", it has historically saved easily 10-20% of devastation of <u>over or underpayment of washes</u> over the my last 28 years.