Investing in the Car Wash Business
Section # 5 – Conveyorized or Tunnel 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

Rules of Thumb

- EXTERIOR ONLY or FULL SERVICE tunnels make up 20% of all existing sites
- 4 phased wash cycle: Prep + Wash + Rinse + Dry
- 1 SF surface area on the vehicle takes how much time to clean it? (chemicals need 10-15 seconds contact time @ conveyor speed of 90 cars per hour)*
- Wash Capability: 1 car per hour per foot of building (1 car / hour / ft of bldg)
- To wash 150 cars / hour must have 150 ft of conveyor / building
- A 10,000 sq ft building, costs $350 per foot to construct & equip (10,000 x $350 = $3,500,000)
- Project w/ 3,000 sq ft tunnel (30' x 100') x $350 sq ft = $1,050,000 + land

**Edit by Fred Grauer on 10.29.07*

Tunnel Considerations

- Capture Rates: 0.50% to 1.50%
- Full Service Production = 2.5 cars per man hour
- Wash 1 car per hour per foot of building
- Higher start-up costs & labor requirements

Annual Profit Potential (national averages)

- $100,000 - $375,000 Exterior Only (high volume units washing 30,000 cars / mo earn $900,000+)
- $400,000 - $750,000 Full Service

Tunnel / Conveyor Financial Model - *Impulse Driven "A" Sites & Traffic Dependent*

- Capture Rate (0.5-1.5% of 24 hour traffic) = _____
  Example: 30,000 cars per day (cpd) @ 1% = 300 cpd
- Number of washing days per year (wdy) = _____ (310-320 wdy in L.A.)
- Estimated cars per year (cpy): _____cpd x _____wdy = _____
- Local market price for wash (average per car) = $_____
- Estimated revenue per year (revenue / car x cpy) = $_____
- Estimated variable cost per year (gross x _____) = $_____
- Estimated fixed cost per car (taxes, insurance, advertising, legal) = $_____
- Estimated mortgage cost per year:
  For minimum 20% required = $_____ (cash)
  For financing 80% @ ___% over ___years = $_____ / year

Tunnel / Conveyor Financial Model - *Impulse Driven "A" Sites & Traffic Dependent*

- Capture Rate (0.5-1.5% of 24 hour traffic) = 300
  [Example: 30,000 cars per day (cpd) @ 1% = 300 cpd]
- Number of washing days per year (wdy) = 300 (310-320 wdy in L.A.)
- Estimated cars per year (cpy): 300 cpd x 300 wdy = 90,000
- Local market price for wash (average per car FS / Ext) = $15 / $10
- Estimated revenue per year (revenue / car x cpy) FS / Ext = $1,400,000 / $900,000
- Estimated variable cost per year:
  >> Full Service: Labor 31%,variable op costs 25%, Mng 10% = ($924,000) = $476,000
  >> Exterior: Labor 22%, variable op costs 20%, Mng 10% = ($468,000) = $432,000
- Estimated fixed cost per car (taxes, insurance, advertising, legal):
  >> Full Service / Exterior: 12% x $1,400,000 / $900,000 = $168,000 / $108,000
- Estimated mortgage cost per year:
  >> Full Service/ Exterior: For minimum 20% required = $385,000 / $245,000 cash down
  >> Full Service financing: 80% @ 8% over 20 years = ($153,550 / year)* = ($308,000 - $153,550) = $154,449 / $385,000 = 40% ROC
  >> Exterior Financing: ($1,225,000* – 245,000) = ($980,000) YR, $227,000 / $245,000 = 90%+ ROC

  ** Edits by Fred Grauer 10.29.07*

Tunnel Example – 60,000 cars per year
Assume that the financials of an existing wash are the following:

Gross Revenue	$1,000,000
Labor & Management	400,000
Supplies & Utilities	170,000
Insurance, Advertising, Mnt. credit card	150,000
Principal & Interest (or rent)	160,000
Net Before Taxes	120,000

1. Return on cash $120,000 / $400,000 = 30%
2. Estimated value based upon EBITDA = 7 x $120,000 = $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 revenues

Tunnel / Conveyor Financial Model ***Impulse Driven "A" Sites & Traffic Dependent***	
Cost Estimates:	
Land: 43,000 sq ft x $25 sq ft (including broker's commission, if any)	**$ 750,000**
Building & Equipment:*	
• 7,000 sq ft x $350 sq ft (Full Service Tunnel)*	1,750,000
• 3,000 sq ft x $350 sq ft (Exterior Only Tunnel)*	1,050,000
• Fees (Arch, GC, ME, Other)	150,000
• Gov. Fees (Impact, Bldg Permit, Etc)	150,000
Total Building & Equipment – Full Service*	**$ 2,050,000**
Total Building & Equipment – Exterior Only*	**$ 1,450,000**
Memo: Equipment included in above calculations	
• Wash System & Ancillary Equipment - $400,000	
• Other - $ 50,000	
Total Equipment $450,000	
Estimated Project Cost: (Land + Building + Equipment) FULL SERVICE*	**$ 2,800,000**
EXTERIOR*	**$ 2,200,000**
NOTE: Easy rule of thumb for cost of building & equipment is $350 (+/-) per sq ft	
**Edits by Fred Grauer on 10.29.07*	

Small is Good!

Anybody can clean in 120 feet! But not everybody can clean in 50 feet! Why smaller can be better?

1. Smaller properties = more opportunity
2. Smaller buildings use less space
3. Smaller washes open up more doors
4. Smaller systems offer the advantage of being unattended
5. Smaller washes offer better risk management
6. Smaller footprint on high traffic offers the chance of dual tunnels
7. There are more opportunities for multiple sales
8. Nobody is better at cleaning in compact areas than Ryko!
9. Ryko's competition isn't there.

The Next Wave!

Conveyor site 25K CPD / 1% Capture
250 CPD @ 250 WDY = 62,500 CPY
The Solution and Investment:

- Dual 60' tunnels with equipment / retail
- 2 @ 900 sq ft (Bldg & Equip) @ $350 per sq ft = $630,000
- 1 Equip / Retail 800 sq ft @ $300 per sq ft = 240,000
- Land: 20,000 sq ft @ $25 = 500,000
- Soft Costs = 130,000
- Total $1,500,000

The Next Wave! Financial Opportunity

250 CPD x 250 WDY = 62,500 CPY
62,500 x $8 per car = $500,000
Less:

- 30% Variable $150,000
- Insurance, Taxes, Credit Card 75,000
- Misc 50,000

NOI $225,000
Amortization debt ($1,500,000-$300,000) $1,200,000 @ 8% / 20 yr = $120,000 yr
Net after debt reduction = $105,000
Return on Cash ($105K / $300K) = 35%

The Next Wave!

By comparison, a 120 CPH tunnel:

- 120 cph = 120' x 30' = 3600 sq ft
- @ $350 per sq ft = $1,260,000
- Land @ $25 per sq ft = $ 500,000

Total Investment $1,760,000
Comparisons:

1. Conventional tunnel is $270,000 more expensive
2. Conventional operating expense is greater
3. Conventional has less flexibility
4. Dual is unique
5. Dual can operate 24 /07 unattended!