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FOR SALE BY OWNER

*A Step-by-Step Primer for Selling Your
Laundromat – On Your Own*

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COVER STORY

Cary Lipman



**FOR
SALE
BY OWNER**

A Step-by-Step Primer for Selling Your Laundromat – On Your Own



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After years of steady growth and with still ample time remaining on your lease, you've decided the time is right to sell your vended laundry business.

Although it's tempting to simply hire a business broker and just let him or her bring all of the buyers to you, close the deal, and do all the paper work, you're still thinking of making a go of it on your own (and saving some money in commissions to boot).

Of the seven laundromats that I've owned and then sold during my 34 years in this industry, I've worked with business brokers on two occasions – and they both were great, but their commission really cut into my profits.

Therefore, when the time was right to sell my other five stores, I knew I could

do it on my own – and probably save a bundle. Besides, I found that the advertisements I ran in the "Business Opportunities" section of the local Sunday newspaper would usually draw the same buyers the brokers were telling me were on their client list.

So, let's get started. The very first step in the process is to dust off your lease and review it, to be sure there is an assignment provision whereby you can sell your business and transfer it to a new owner without hindrance by the landlord.

In the process of selling a vended laundry, the lease can be either an asset or a liability. It will be a major contributing factor in determining the value of the business and how much prospects will be willing to pay.

A personal rule I've always followed with regard to the lease is this: if there were fewer than 10 years left, approach the landlord and try to add a couple of five-year options to the remaining term. A buyer who may be making payments to you and perhaps financing new equipment over a period of time would like to have an ample number of years left on the lease after completing the note payments so that he has something left when he decides to sell.

Gather together all of your books, bank records, tax returns and utility bills going back at least two years, along with your lease, for potential buyers to look at. They will undoubtedly be looking for any downward pattern of monthly revenue over the last 24 months. In all likelihood, they also will be concerned that perhaps a brand new laundromat may have just opened up a mile from your store and that is the real motivation for you to be selling your business.

From your perspective, deciding on a realistic asking price for your laundromat operation will be predicated on several things:

- Remaining years left on your lease. Hopefully, your landlord will be willing to add more time, if necessary.
- The overall condition of your laundromat.
- The age and sizes of all of the washers and dryers.
- Whether or not your store is located in a strong market with little competition.
- A steady annual cash flow – profit after taking into account all expenses, net of any outstanding financing.

Every industry has a formula for valuing and pricing their specific businesses for sale. The vended laundry industry is no different. Years ago, annual gross revenue was the number everyone looked at to determine the selling price of a store – until more sophisticated investors began showing more interest in the industry.

A laundromat owner would calculate how much gross revenue his store was generating from all sources each year and then multiply that amount by one or one-and-a-half times in order to determine the selling price. It was incredibly simple; however, not very realistic in the eyes of today's more sophisticated investors.

An established laundromat generating \$250,000 in gross revenue each year with 35 percent operating expenses would be worth more to an investor than a store grossing \$500,000 with 85 percent expenses. You get the point.

No one cared anymore what you were grossing, just what you were putting in your pocket each year after expenses. Thus, more and more, we began seeing laundromats being sold for two to five times their annual net earnings, or up to 45 times their monthly net earnings and so on, based on different marketplaces in different regions across the country.

Although you will be using just a few simple factors to determine your asking price, be aware that buyers are looking at far more to determine what their actual return on investment will be. Especially important are the age and usability of the washers and dryers. Those are the work horses that will be generating revenue for the business.

From the buyer's point of view, if some or all of the machines and water heating system have to be replaced, they will have to factor in financing for the needed new equipment, in addition to a possible monthly note to you, as well as any annual rent increases built into the lease. This all impacts the potential buyer's ROI, so your store's equipment undoubtedly will influence this investor's willingness to give you what you're asking for the business.

If your vended laundry is fully or partially attended, there will be an expense for labor and taxes that you may or may not want to figure into your final calculations to determine your selling price. Most business brokers I've spoken with will typically leave out labor costs and sell the businesses as "owner-operated." Obviously, the final net profit will appear to be more attractive, and your asking price can be higher.

Of course, if you're taking in wash-dry-fold, offering pickup and delivery, or providing any other services that are performed by your store's attendants and other staff members, buyers will be looking at employee payroll and taxes as an added monthly expense, which will affect cash flow – and probably the final offer to buy. In such cases, the only time employee compensation would not be a factor is if the buyer had plans to release the entire staff, take on the whole workload and pocket the payroll.

The terms of the purchase may include you asking for full payment for the business at closing, or a portion down at closing with the remaining balance to be paid in monthly installments for a specified period of time – typically 24, 36 or 60 months. Upon receiving the final payment, ownership of the business is then transferred to the new owner.

With a monthly installment plan, I need to add a word of caution. Over the years, I've seen this type of arrangement backfire in some cases and turn into a complete nightmare for

the former store owners. Typically, in such scenarios, the new owner may not be a very good businessperson, and the laundromat begins to deteriorate. When this happens, the monthly payments begin to slow down, the utilities don't get paid and get turned off, and the rent winds up being three months or even more in arrears.

When the original owner, who may still be bound by the lease, finally goes through the legal process of taking back the business, catching up on the rent and turning the utilities back on, it could cost well over \$15,000 to reopen the store – which most likely is now generating about half of the business it was doing when it was sold.

By the way, I have never financed the sale of any of my seven stores and taken back a note. Admittedly, I probably lost a few legitimate buyers along the way, but I simply didn't want to worry about having to go back to a laundry business that I had long since sold and moved on from. I also had a written provision in the assignment of the lease that, after two years of monthly rent payments by the new owner, I was to be taken off of the lease with no further obligation.

As it turned out, some laundries being sold aren't making any money at all. I've seen inexperienced buyers – many of whom were older retirees – get burned pretty badly because they didn't know how many quarters were really going into the machines every day, which can be easily and fairly accurately determined through water and gas consumption formulas using a store's utility bills.

These formulas are used after separating the self-service portion of the revenue from all the other sources, such as snacks, beverages, vended detergent, wash-dry-fold service, drop-off drycleaning, alterations and so on. Of course, with more and more of today's laundromats featuring washers and dryers that accept credit or debit cards, buyers of such operations can much more easily calculate strictly self-service revenue.

On the other hand, some things about selling a vended laundry business haven't changed. For instance, the store itself – especially the front entrance, windows, floor, walls and ceiling – must undergo a much more than thorough "spring cleaning" job. Update and enhance your signage. And, above all, be sure that all of your machines are working properly. This definitely will be a provision of the sale of your laundry business.

When you're finally satisfied that your store is ready to be shown, it's time to get the word out. As you probably know, *BizBuySell.com* is a leading internet site for those buying and selling businesses, and it's a site most buyers visit when

looking to purchase an existing laundromat. So make sure you're listed there.

Also, if you're in an area that still has a relatively strong Sunday newspaper in which businesses can be bought and sold, by all means be sure to run an ad in that section. In addition, notify all of your local distributorships in your market that your laundromat is for sale. Timing is everything, and one of those distributors may have a qualified buyer waiting in the wings, looking for an established laundromat just in need of some modernizing and a bit of retooling.

Obviously, by this point, you already will have advised your attorney and accountant that you're in the process of selling your business. Personally, I always asked these business advisors to speak with some of their other clients who they felt might be interested in investing in a laundromat business. After all, there's always a bit of added credibility coming from those types of business professionals.

When a formal "offer to buy" has been made, it will be the foundation of the sale of the business, outlining all of the terms of the purchase and the method of payment at the closing – all of which you and the buyer already will have discussed and agreed upon.

It's customary to collect a 10 percent "good faith" deposit with the offer. This deposit should be held in a separate account of a neutral attorney who will be representing the closing, or simply clipped onto the file until the closing date.

When you accept the offer the due diligence period begins – usually 10 to 15 business days – where the buyer combs through all of the documents requested, has a technician check the machines, drives around the neighborhood looking for the competition, and does anything else deemed necessary.

Some buyers will insist on counting customers and coins for two weeks or more, as well as speaking with your attendants. This may become a sticking point and should be addressed up front, as you may not want your staff to know you're planning to sell the business.

This is a very sensitive part of the selling process with a lot of various opinions. Rightfully, buyers should have access to everyone involved in the operation of the laundromat. However, at the same time, the owner may be justifiably fearful that, when the attendants realize the store is being sold, they will immediately begin looking elsewhere for employment.

At the end of the due diligence period, any changes to the offer – based on the buyer's findings – then can be discussed and negotiated. After that, you're ready to hand over the keys, and a closing date can be set.

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Have your utility companies take a reading of your meters for your final payments before the new owner takes over. Clearly, you and the buyer will have to coordinate when the utilities will change hands so that there is no interruption of service. Also, any pre-paid property taxes and insurance premiums will be pro-rated and paid at the closing.

The night before closing, meet the buyer at the store to test the machines, show what keys go where, count quarters, and take inventory of completed and pending wash-dry-fold orders and vending supplies. The buyer will give you a separate check at the closing for the agreed upon amount for all of the extras. You will have drawn up an "Exhibit A" with everything in the store being included in the sale of the business.

The next day, you and the buyer will meet at the closing attorney's office to sign all of the papers, write the checks and finalize the sale. The attorney will have checked for any outstanding liens on the business or equipment, and also

secured a signed landlord assignment with any pre-paid rent and security deposits placed in the buyer's name. He will write a check to you for the deposits, and you and the buyer customarily will split the cost of the closing attorney.

For me, the next step was always the most difficult – returning to the laundromat with the new owner and announcing the sale of the laundromat to my staff members. There's no easy way around that step.

At this point, the new owner no doubt will want to change the locks on the doors, as well as the alarm codes, etc. – and you will spend the next couple of weeks working with this fledgling operator to get him or her up to speed as quickly as possible.

From there, you're on to your next business challenge.

Next Month: We will examine the benefits of working with a business broker to buy or sell your next laundromat.

[Editor's Note: The opinions and views expressed within this article are based strictly on the personal experiences of the author. Before making any business decisions, be sure to consult with an attorney, accountant or other professional business advisor.]



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