Matthew Westphal

# Choosing a Lender?

## Three Key Factors to Consider When Seeking Acquisition and Equity Financing


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Whether you're a new investor in the self-service laundry industry or a seasoned multi-store owner, there will come a time when you will need to invest – or reinvest – in your business.

Although banks, leasing companies and the Small Business Administration may offer traditional financing options on new equipment purchases, other finance options, such as acquisition and equity financing, may be harder to come by for your laundromat.

The positive impacts of these options on the growth of your laundry business are undeniable. To take advantage of these opportunities, the need to partner with a lender that offers all of the financial options above is critical. Furthermore, a lender with a proven track record in the self-service laundry business can present entrepreneurs and current store owners with growth opportunities and a higher return on investment.

There are three important factors to remember when choosing an acquisition lender, to ensure that the institution has your business' long-term success in mind:

### Speed of Decision and Service

Find a laundry for sale in a prime location, and it won't be long before it's gone. When deals are closed within a 10- to 14-day period, there's no time to shop around or wait for a lender to make a credit decision. Instead, you must have a pre-approved credit limit with a lending resource that understands that time is of the essence in laundry acquisitions. Funds must be obtained quickly and with customized, expert service. You should work with a lender that can provide quick customer preapprovals and a credit decision on a laundromat in as little as three to four days.

When Brian Holland and Tyrone Akins, co-owners of The Laundry Café in Philadelphia, sought a loan to open a second location, they chose their manufacturer's in-house financing operation.

"With our second store, we knew speed was a priority," Holland explained. "We feel we have an innovative business model and were afraid of well-capitalized, fast followers. It was important for us to move quickly."

Holland and Akins had originally pursued a loan from a bank for their first store and were disappointed in how long the process took, as well as the unfamiliarity the lender had with the laundry industry.

"Our need for urgency was simply not their priority," Holland said.

"We had gone through the entire application process with the SBA, and they just didn't get our vision," Akins added. "The in-house lender knew what we needed before we needed it. It was refreshing."

Additionally, a lender involved in the laundry business recognized the equity of not only the brick and mortar in their first location, but of the business equity they had built, and used that to secure funding on the loan to open their second store. This unique way of viewing business equity not only helped the investors meet tight timelines, but gave Holland and Akins financial flexibility once the project was underway.

The owners were provided interest-only payments while opening the new store so that they could ramp up their new business quickly, without a large financial constraint.

"That's hugely important for a new store owner, because there's that phase where you're still paying out checks to construction workers and contractors, but you haven't built your market yet," Holland said. "To not have that burden of a full loan repayment every month was a great thing for us."

## Complete Evaluation

When applying for a loan to put toward purchasing and upgrading an existing laundry, it's equally important to consider how the lender's evaluation of the location will affect financing. Traditionally, banks value laundromats based solely on the machines inside. Stores in need of refurbishing can be a great opportunity for investors, but old equipment will not bode well for a substantial loan from a traditional lender. A lender who understands the industry will look at the equipment, perform a business valuation, review the premises lease and complete a location analysis. This complete evaluation is the way to ensure you're provided with the best financial solution on the purchase of your laundry.

First, a review of the equipment is performed to establish a baseline of collateral at the location. The basic information about the equipment is obtained – such as make, model and vintage – to get a ballpark estimate on the value of the equipment and the mix at the location. The older the machines, the more likely the new owner will have to replace equipment in the short run. This is important for the lender to understand what other financial requests from the borrower are likely in the future – and whether or not the store can support the additional debt.

Other factors involved with the equipment include the condition of the equipment and any remaining warranties that may still be in place after the sale. Has preventive maintenance been performed on a regular basis? Has any extra work been done by certified technicians? Has the local distributor been involved in the maintenance and kept records of repairs and service performed? With some manufacturers, a warranty on equipment can last up to 10 years and also be transferrable with the sale of the business. These factors play an important part in determining the term of the acquisition loan. In many cases, with the above properly maintained on the equipment, a lender is even able to finance equipment that is over 10 years old.

**Ultimately, success comes down to relationships when investing in a self-service laundry. Think about your relationship with your banker. Does he or she know the ins and outs of your business, your goals and vision, and understand the circumstances that could impact your success?**

Next, an experienced lender will perform a business valuation. A financial analysis of the revenues and expenses is created to derive the store's operating income. A multiple of five times the store's operating income prior to any debt service is used to determine an approximate value of the laundry. One should expect to finance in the range of 65 percent of that valuation or the agreed upon purchase price for the business.

For example, if a store's operating income is $50,000, the approximate value of that store is $50,000 x 5 = $250,000. A borrower should reasonably expect to obtain a loan for approximately 65 percent of that value (or $162,500) and would have to pay $87,500 out of pocket to purchase the laundry.

Then, an evaluation is conducted on the building's lease terms. Whether you choose to assume the current lease or write a new one, the end goal is to have a long-term lease in place for the business. A 10-year lease, with two five-year options, will give a store buyer ample time to pay back the loan and replace equipment if and when necessary. This length of time also ensures that the purchasers have enough opportunity to make a return on the investment and to provide them with a viable store to sell if and when they choose.

Finally, take into account the factors of the location. As the saying goes, "location, location, location" – and this is definitely true for a laundry business. An in-depth look at the demographics of the local population, the location of the retail property and competitors within the area is reviewed to determine viability of the business in the given market.

When reviewing demographics, one must look for the "standard laundry customer." Reviewing the percentage of renters, people per household, and income levels of the local populace can provide a rough idea of how many customers the laundry can attract. More importantly, take a look at the location of the laundry itself and how easily these customers can access it. How is the ingress/egress situation with local roads and traffic to the building or shopping center? Whether or not the building is stand-alone or part of a strip center can be important and determine how much dedicated parking the laundry business will have. Also, a look is taken at the businesses surrounding the laundry to see if they may have a direct impact on the laundry's customer base.

Lenders with access to a distribution network to assist with site analysis and competition evaluation are invaluable to you. A local distributor can identify potential competition and provide pointers on how to differentiate and improve your laundry. By analyzing a business' total potential, together the lender and distributor may even be able to recommend a more profitable, alternate location. In fact, that's what happened to Todd Hoffman last year.

Hoffman, a Kentucky businessman, had his eye on an existing laundry in his area. However, as a result of the complete evaluation, his lender and local distributor actually steered him away from purchasing it and instead scouted a more profitable investment nearby.

"They looked at the competitive environment and recommended we look at alternative locations," Hoffman said. "As someone new to the industry, I was thankful they thought about my long-term success rather than just making a sale."

Now familiar with Hoffman, his laundry and his business goals, his lender was able to approve him for a second loan to replace the store's dated equipment quickly and without further paperwork. This decision has ultimately reduced utility costs, provided additional revenue possibilities with new equipment and led to increased profits. With the goal to purchase an existing profitable store in the future, Hoffman will likely use the equity from his first store toward his second location.

"If I had worked with a traditional lender, the acquisition process likely would still be going on," said Hoffman, who reopened Southside Laundry in December 2014 with new equipment, just four months after first considering investing in the laundry business.

Nick Luzecky, president of Missouri-based distributor KeeWes Equipment Co., has had dozens of customers take advantage of equity and acquisition financing options, and he's pleased with what it's afforded them.

"These programs have allowed our customers to take advantage of the equity they've developed over the years in existing stores to grow their businesses quickly," he said. "There are a lot of stores out there that need to be refurbished, and tailored financial packages have really helped our customers replace that equipment and become more profitable."

## Tailored Finance Solutions

Ultimately, success comes down to relationships when investing in a self-service laundry. Think about your relationship with your banker. Does he or she know the ins and outs of your business, your goals and vision, and understand the circumstances that could impact your success? Do they understand wash-dry-fold revenue, turns per day on machines and what it takes to run a successful laundry? Most importantly, are they experts in the laundry market?

After spending much of his early career in the technology industry, Bruce Gilliat was looking for a new business venture that would provide financial gain – and an investment that would pay off quickly. After looking at a number of different investment options and comparing the average return on investment, Gilliat and his wife settled on the laundry industry. In 2012, they consulted with their equipment manufacturer's lending operation and received a loan to acquire a laundromat.

"Acquiring our first location was seamless – in large part because of the added support our lender provided, including comparative analyses, factors to consider before opening a laundromat and acquisition financing," Gilliat said. "Our lender actually validated that we were making the right purchase."

Now with five stores – three in Las Vegas and two in nearby Henderson, Nev. – Gilliat is confident Las Vegas Coin Laundry would not exist without the strong partnership with his lender. Furthermore, the couple has met their financial goals sooner than anticipated.

"Because our lender took the time to know us and believe in us, we were able to expand to additional locations quickly," Gilliat added. "I would not be a multi-store owner today if we had worked with a lender that lacked knowledge of the laundry industry."

Luzecky has seen first-hand the ways an attentive financial partner can help his customers grow. He says it's simultaneously helped his distributorship succeed.

"When a customer is happy, I'm happy," he said. "Quick preapproval, minimal paperwork, no prepayment penalties, competitive rates, extended payment terms – these things all make for satisfied customers. It also frees up my time and my employees' time to focus on other things, like identifying new business."

At the end of the day, an investment in a laundry business requires finance solutions tailored to the unique needs of each customer. Without a partner that anticipates, understands and provides solutions for these unique needs, the only thing an investor can guarantee is lost opportunity and frustration.

When considering a lending partner, be sure you are choosing one that understands the laundry business, as well as the speed of service that is required to purchase a store. Ensure the lender is giving the business a complete evaluation, not simply accounting for the equipment. In this industry, financing is so much more than an option to purchase equipment.

All in all, choose a lender that acts like your business partner and will provide your business with the growth opportunities to maximize the return on your investment.