



LAUNDROMAT AN INDUSTRY STUDY

Things you will learn from this whitepaper:

1. Why has the economic downturn not affected the laundromat industry?
2. How does the advancement of technology affect the laundromat industry?
3. How has consolidation affected the landscape of the industry?
4. How has competition affected the industry's landscape?

This whitepaper will have special interest to:

1. Attorneys consulting with laundromat owners considering mergers or acquisitions.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Those concerned with the valuation of laundromat businesses.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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Industry Overview

The coin-operated laundry industry, at approximately 60 years old, is highly fragmented. There are about 35,000 coin laundries in the U.S., generating nearly \$5 billion in annual gross revenue. Much of this income is realized by individual owner/operators. Though small operations are typical to the industry, some chains exist. Coinmach Laundry Corporation, with more than 870,000 machines in the U.S. and more than 160 Kwik Wash Laundromats, has established itself as the industry's clear leader.

Coin laundry is defined as "commercial-grade, self-service laundry equipment placed into service in a retail space." Establishments typically occupy retail space on long-term leases (10-25 years), and generate steady cash flow over the life of a lease. Coin laundries are unique small businesses because they hold no inventory or receivables, and no traditional employees. Very few coin laundries employ attendants.

Coin laundries are one half of the self-service laundry business; the other half consists of coin-operated machines located in apartment housing. This growing market is referred to as the "multi-housing laundry business" or the "coin route business." These industry segments frequently overlap; in more mature markets, the self-service laundry business is estimated as evenly split between the two.

Coin laundries, also referred to as "coin-operated laundries," or "Laundromats," are classic examples of passive-income generators. Cash flow typically runs between \$15,000 and \$200,000 annually, and businesses range in market value from \$50,000 to \$1,000,000. Most stores occupy between 1,000 and 4,000 square feet of retail space; hours usually run from 6:00 a.m. to 10:00 p.m. New coin laundries are valued based on actual construction and equipment costs, while existing coin laundries are valued based primarily on revenues.

Because clean clothes are considered a necessity of life, the industry is said to provide a basic health service. An estimated 100 million Americans living in rental housing form the primary customer base of the self-serve laundry industry. The secondary customer base consists of the non-rental population, who produce more modest revenues for the industry. Because services are in continuous demand, revenues remain stable from month to month and bookkeeping operations are straightforward

Competitive Landscape

The number of U.S. coin-operated laundries peaked in the mid-1990s before declining slightly in the beginning of the 21st century. The overwhelming majority of businesses were primarily engaged in the operation of coin-operated or similar self-service laundry and/or dry-cleaning equipment on their own premises. Fewer than 1,000 businesses were estimated as being primarily engaged in installing and operating coin-operated laundry equipment in apartments, dormitories, and similar locations. Currently, these establishments employ approximately 50,000 workers, down from a high of 53,000 in the late 1990s. Total revenues have increased, however, climbing to \$3.5 billion, as compared to \$2.8 billion at the end of the 1990s.

Coinmach, the largest service provider, grew at a rate of 0.8 percent in fiscal 2004. Company sales reached \$531 million, and total employees increased 0.5 percent to 2,003. Mac-Gray Corporation,



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an industry leader in operating debit card and coin-operated washers and dryers, reported \$182.7 million in sales and claimed 720 employees in fiscal 2004. Sales were spread over 45,000 apartments, dorms, and other housing facilities in 40 states.

Unlike many industries, competitive entry to the market is not barred by economic recession, as coin laundries thrive in all economic climates. Even during periods of recession the self-service laundry market expands, since more people are unable to afford to repair, replace, or purchase new washers and dryers, or because they move to apartment housing with inadequate or nonexistent laundry facilities. The market size grows commensurate to increases in population.

Operations and Performance Levels

Coin laundry operations consist of three basic areas: janitorial, maintenance, and the handling of money (which consists of collections as well as loading coin changers). Bookkeeping, administration and banking are typically executed off-site.

Sales volume, and/or individual store performance varies based on a number of factors. These factors may include: demographics; overall services offered; design and general condition; equipment selection, condition and vend prices; hours of operation; exposure of the building; parking; and competition.

A standard profit and loss statement for a coin laundry typically includes the following line items:

- Income- consisting of wash and dry
- Other income- including vending, dry-cleaning, and/or wash dry-fold service.

Expense categories typically consist of:

- Accounting
- Advertising
- Insurance
- Legal Costs
- Licenses
- Maintenance (including parts and labor)
- Payroll (usually limited to onsite work; i.e., janitorial or employees)
- Personal property tax
- Rent
- Common Area Maintenance charges ("CAM", or "net" charges), including: real estate taxes, maintenance, insurance, and other charges
- Utilities (gas, water, electric and sewer)
- Vending expenses
- Miscellaneous costs (including: wholesale dry-cleaning costs, fluff-n-fold supplies and labor).



The percentage for each category varies by store and by region. Interest charges, depreciation, and other non-standard items, (e.g. owner salary) generally appear on tax returns, but are excluded from the standard profit and loss statement for purposes of valuation and determination of cash flow.

National surveys, conducted by the Coin Laundry Association, indicate a wide range of performance for individual stores and equipment types. The industry terminology for individual equipment performance is "cycles per day," or "turns per day (TPD)." These designations refer to the number of times per day, on average, each machine is used. The range for washing machines is generally 3-8 TPD. Primary factors affecting usage include: population demographics; capacity and quantity of washers; vend prices charged; and prevailing market prices.

Dryer income can vary greatly due to: total wash poundage generated; overall vend prices of both washers and dryers; heating efficiency of dryers; total number of dryers in relation to washers; and dryer size and capacity. Dryer income is generally expressed as a percentage of overall income. Generally, dryer income runs between 25 and 50 percent of total washer and dryer income. Income and expense percentages may vary significantly for stores offering additional services, such as dry-cleaning and fluff-and-fold.

The accepted standard of "useful life" for commercial coin laundry equipment is:

- Top-load Washers (12-14 lbs.): 5-8 years
- Front-load Washers (18-50 lbs.): 10-15 years
- Dryers (30-60 lbs.): 15-20 years
- Heating Systems: 10-15 years
- Coin Changers: 10-15 years

This schedule varies by usage, sales volume, and maintenance. "Useful life" may differ for accounting or tax purposes.

Industry Technology

The coin-operated laundry industry has been quick to embrace technological innovations. In 2002, IBM and USA Technologies announced "eSuds," a fully computerized laundry service. With eSuds, some 9,000 washing machines and dryers at colleges and universities throughout the U.S. have become completely web-linked. The program incorporates either an ID card or cell phone for payment. A website locates an available machine, and notifies the user via email or cell phone when the load is finished.

This technology is the latest evolution in a campaign launched by the former Solon Automated Services, Inc., which linked each of its sites to a central database. The automated system slashed accounting errors with the use of a bar-coding system tracking the number of coins received by each machine. In addition, the database provided usage and maintenance records.

Another emergent technology is machine-readable cards that operate Laundromat washers and dryers in lieu of coins. These simple debit cards, produced at Arthur D. Little, Inc.'s Center for Technology and Product Development, hold monetary balances via magnetic encoding. Patrons use



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the cards to operate laundry machines, and the machines automatically read and deduct the charges from the card balance. "Smart" cards have helped reduce labor costs while augmenting pricing flexibility.

Industry Opportunities

Increasing Population Density - While coin-ops are found in virtually all neighborhoods across the country, stores seem to perform exceptionally well in predominately renter-occupied, densely populated areas. These areas increase in number each year across the country: as of the 2000 U.S. Census, 31% of the nation's 116 million households were renter occupied. National and regional demographics indicate that renters, the primary users of coin laundries, are the fastest-growing segment in the nation.

Shift to customer focus and super store formats - A trend toward cleaner, brighter, and better-maintained operations has emerged as storeowners focus on retaining customers. Additional amenities and/or ancillary services such as coffee shops, Internet kiosks, and tanning booths have become increasingly common. These services have helped boost prices and increase profitability, while retaining customer base.

Industry Challenges

Energy Costs - Water and electricity costs are continuously rising. Therefore, the industry must continuously find ways to cut overhead and increase efficiency. By 2007, new energy standards will be instated to govern water usage. These standards will move the industry to larger, frontload equipment.

Consolidation Issues - The coin-operated laundry industry has proven itself resistant to consolidation. Laundromax, a chain of laundry superstores envisioned by former Blockbuster Entertainment executives, was the largest attempt to consolidate the industry. Following its success with the video rental business, Blockbuster launched Laundromax in 2000. The Fort Lauderdale-based enterprise aimed to operate 600 laundry superstores by 2003, but leveled out after 47 locations, eventually ceasing operations in April of 2001.

Escalating Rents - Because many Laundromats exist in urban areas, rents tend to escalate. Many store owners seek to own their own real estate. For those proprietors unable to do so, sporadic upgrades to larger machines are essential in order to command a higher vend price. Recent tax incentives for new equipment purchases have also spurred acquisition of more energy-efficient machinery, helping to offset rent costs.

Marketing Environment

Per the industry's typical owner/operator scenario (with no allocation for outside management fees), coin laundries typically sell for a multiple of net earnings. The multiple may vary from three to seven times net cash flow, depending on several valuation factors. The subsequent factors establish market value:



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- Net earnings before debt service, after adjustments for depreciation; and any other non-standard items including owner salary, or payroll costs in services
 - Terms and conditions of the real estate interest (lease)- particularly length, frequency and amount of increases; expense provisions; and overall ratio of rent to gross income
 - Age, condition, and utilization of the equipment; leasehold improvements; the physical attributes of the real property on which the coin laundry is located- particularly entrances/exits, street visibility, and parking
 - Existing conditions, including vend price structure in the local marketplace
 - The demographic profile in the general area or region
 - Replacement cost and land usage issues

Marketing time for store sales averages two to three months, depending on price, financing terms and stores available at the time of sale. Business listings are generally offered by brokers charging a sales commission of 8 to 10 percent. Most coin laundry distributors also act as brokers.

Industry Outlook

Today's coin-operated laundry industry is a strong and vibrant one that continues to grow and thrive. The demographic trend toward an even greater "apartment dwelling" segment of the population portends continued industry success. Irrespective of economic conditions, services remain in continuous demand. The continued development of efficient, inexpensive technologies have streamlined operations and cut costs, and overhead is nominal, with virtually no payroll expenses.





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