

U.S. Car Wash Industry: Market Overview and Illustrative Roll-up Investment

April 2017

Industry Overview

In 2017, Americans will spend ~\$7.8 billion on professional car washing services, or \$29 for each of the ~270 million motor vehicles in the country. From 1997 to 2012, the industry revenue grew at a 4% CAGR.

Professional Car Wash				
Conveyor Tunnels		In-Bay		
Full Service	Express	Automated	Self Service	At Home
Car goes through an automated conveyor tunnel and gets manually vacuuming and basic detailing work by staff. Customer leaves vehicle for entire process.	Car goes through a fully automated conveyor tunnel. Staff only required to supervise process. Customer remains in vehicle.	Car is driven into a single stall, where automated machinery performs a basic wash. Minimal staff required for supervision. Customer leaves vehicle for entire process.	Car is driven into a single stall, where customers perform their own wash with provided instruments. Minimal staff required for basic supervision.	Manual wash performed at the owners home.
Average Cost: \$10 - \$25	Average Cost: \$5 - \$12	Average Cost: \$4 - \$7	Average Cost: \$2 - \$4	Average Cost: ~\$0

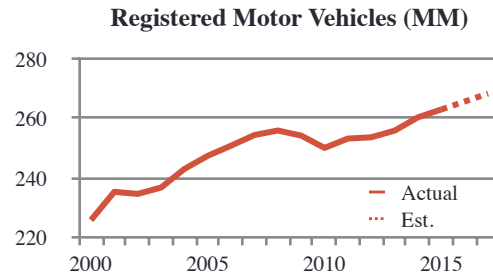
U.S. Professional Car Wash Market Estimates

	Locations		Per Location Detail			Total Market			
	#	%	Per Wash	Annual Vol.	Annual Rev.	Annual Vol.	Annual Rev.	Market Share	
			(\$)	(000s)	(\$000s)	(MM)	(\$MM)	% Volume	% Revenue
Full Service	2,597	17.6%	\$15.00	85.1	\$1,276	220.9	\$3,314	23.4%	42.7%
Express	2,703	18.3%	\$8.00	120.0	\$960	324.3	\$2,594	34.3%	33.5%
Total Conveyor	5,299	35.8%	\$11.43	102.9	\$1,115	545.3	\$5,909	57.7%	76.2%
Automatic	5,020	34.0%	\$6.00	43.0	\$258	215.9	\$1,295	22.8%	16.7%
Self-Serve	4,462	30.2%	\$3.00	41.2	\$123	183.7	\$551	19.4%	7.1%
Total In Bay	9,483	64.2%	\$4.59	42.1	\$195	399.6	\$1,846	42.3%	23.8%
Grand Total	14,782	100.0%	\$8.21	63.9	\$525	944.8	\$7,755	100.0%	100.0%

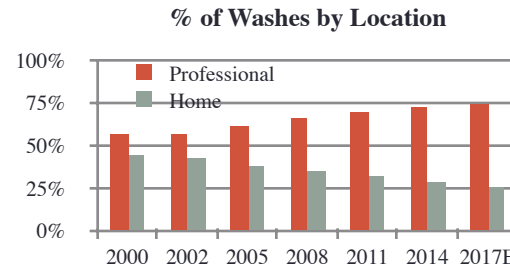
Fastest growing segment

Growth Drivers for Express Conveyor Car Washes

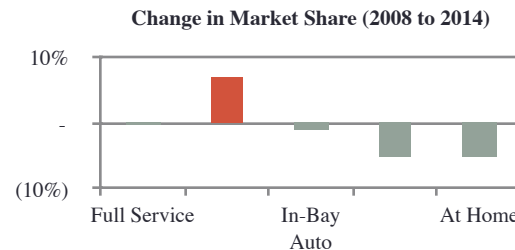
Baseline Population /
Vehicle Growth



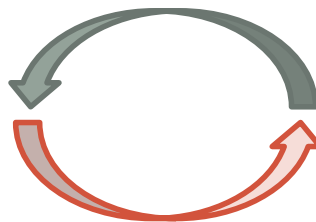
Mix-shift Towards
Professional Washing



Mix-shift Towards
Express Service



Driving Recurring
Revenue Through
Subscription Model



- Registered vehicles in the US have grown at a 1.0% CAGR from 2000 – 2017, providing a baseline annual increase in demand for car washing services
- ‘Vehicle Miles Traveled’ grew at a 2.1% CAGR over the same time period, indicating increased usage per car
- Low gas prices encourage vehicle ownership and increase miles driven (potential for opposite effect if prices spike)
- Consumers are consistently shifting towards professional washing over washing at home
- Consumers cite speed and convenience as a reason to wash professionally
- This shift continued uninterrupted through the 2008 recession, indicating insulation from economic cycles
- Express conveyor washes have become the clear preferred professional wash option, and is the fastest growing segment
- Consumers like to stay in their car for the entire process, and the product is priced at a ~50% discount to full-service
- Preferred new-built model by owners due to limited labor requirements and higher margin profile
- Advent of the subscription model (typically a monthly fee for unlimited washes) is a new driver of recurring revenue growth
- Express conveyor washes are best suited for this model, as it leverages the fixed labor cost (vs. full-service in which labor is variable)
- Creates network effect for operators with multiple locations

Competitive Landscape (*Conveyor Car Washes*)

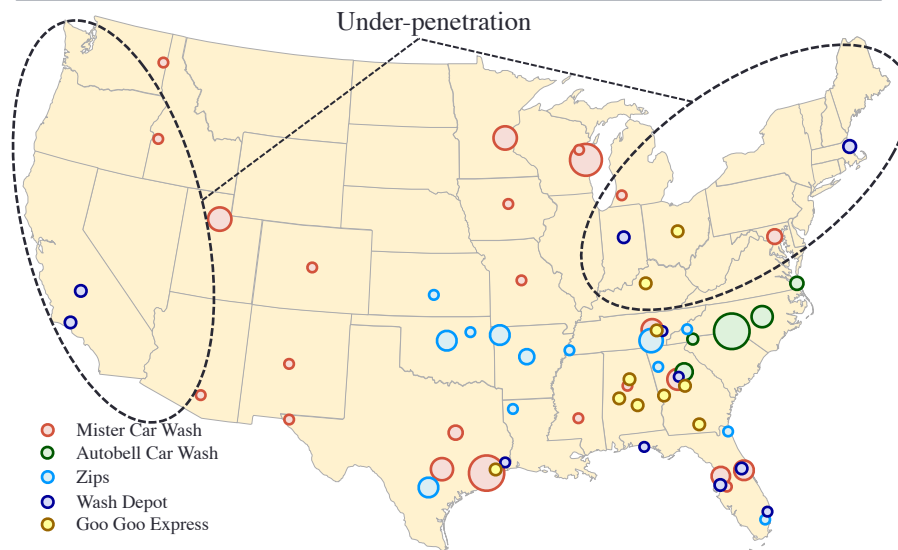
Represents an incredibly fragmented industry, as the market leader has just 4% market share

- Historically, car washes were almost exclusively ‘mom and pops’ with single locations. In recent years, some chain car washes have emerged, however the market is still dominated by single locations. Per the US Census, the average location count per company is ~1.1
- Car wash chains experience a stronger network benefit within a hyper-local area (i.e. a single city) due to increased likelihood of membership subscription, loyalty programs, and brand awareness

Conveyor Cash Wash Companies by Location Count

Rank	Company	HQ	Locations	Est. Financials (\$MM)[1]		Market Share
				Revenue	EBITDA	
1.	Mister Car Wash	AZ	222	247.5	74.3	4.2%
2.	Autobell Car Wash	NC	74	82.5	24.8	1.4%
3.	Zips	OK	72	80.3	24.1	1.4%
4.	Wash Depot	MA	51	56.9	17.1	1.0%
5.	Goo Goo Express	GA	40	44.6	13.4	0.8%
6.	Delta Sonic	NY	29	32.3	9.7	0.5%
7.	Quick Quack	CA	29	32.3	9.7	0.5%
8.	Crew Carwash	IN	27	30.1	9.0	0.5%
9.	Terrible Herbst	NV	26	29.0	8.7	0.5%
10.	The Wash Tub	TX	23	25.6	7.7	0.4%
11.	Brown Bear	WA	22	24.5	7.4	0.4%
12.	Waterway	MO	22	24.5	7.4	0.4%
13.	Golden Nozzle	MA	21	23.4	7.0	0.4%
14.	Quick N Clean	AZ	21	23.4	7.0	0.4%
15.	Kaddy	OR	20	22.3	6.7	0.4%
16.	Carwash USA	MS	19	21.2	6.4	0.4%
17.	Splash Car Wash	CT	19	21.2	6.4	0.4%
18.	ScrubaDub	MA	18	20.1	6.0	0.3%
19.	Mikes Carwash	OH	17	19.0	5.7	0.3%
20.	Prime Shine	CA	17	19.0	5.7	0.3%
21.	Car Spa	TX	16	17.8	5.4	0.3%
22.	Fast Eddies	MI	16	17.8	5.4	0.3%
23.	Fuller's	IL	15	16.7	5.0	0.3%
24.	Hoffman	NY	15	16.7	5.0	0.3%
25.	Washman	OR	15	16.7	5.0	0.3%
--	Top 25	--	866	965.6	289.7	16.3%
26. - 50.	Next 25	--	245	273.2	82.0	4.6%
--	Top 50	--	1,111	1,238.8	371.6	21.0%
--	Others	--	4,188	4,669.9	1,401.0	79.0%
--	Total Conveyor Market	--	5,299	5,908.7	1,772.6	100.0%

Key Location Concentrations of Top 5 Chains



- No large national chains
- Top chains are highly concentrated in specific cities and regions (particularly in the southeast), yet often have overlapping territory within mid-sized cities (ex. Nashville)
- Significant under-penetration on the west coast and northeast
- Nearly zero exposure to any of the top 6 largest Combined Statistical Areas by population (NYC, LA, Chicago, DC/NoVA, Bay Area, Boston/Providence)

Sources: Professional Carwashing & Detailing Top 50 List, Company Websites, US Census Data, International Carwash Association.

[1] Revenue estimates based on average conveyor carwash revenue as calculated (see Pg. 1). EBITDA margin assumption of 30% per industry research.

Illustrative Unit Economics

Express Carwash Illustrative Economics				Notes
Per Car	Annual	% Margin		
Cars Washed	--	120,000	--	Represents ~27 cars / hour, or ~20 - 25% capacity utilization.
Cars / Month	--	10,000	--	
Revenue	\$8.00	\$960,000	--	Wash packages typically range from \$5.00 - \$12.00
Electricity	\$0.50	\$60,000	6.3%	Blowers account for roughly 60%-70% of the site's power consumption.
Natural Gas	0.12	14,400	1.5%	For hot water, heated dryers. Will vary along with throughput.
Water	0.16	19,200	2.0%	~40 gallons water per car. Reclaim systems can reduce water and sewer costs.
Detergents	0.64	76,800	8.0%	Varies based on wash package (\$0.45 - \$1.20) and by supplier discount levels.
Customer Claims	0.10	12,000	1.3%	Can be mitigated by better cameras and monitoring systems.
Repair and Maintenance	0.50	60,000	6.3%	Includes equipment, building, lot, signage, landscaping etc.
Variable Costs	\$2.02	\$242,400	25.3%	
Gross Margin	\$5.98	\$717,600	74.8%	
Site Labor	\$1.44	\$172,304	17.9%	Represents \$12/hr for 2 employees at all active hours and \$50k manager salary
Office / Administrative	0.92	110,000	11.5%	Marketing, systems, accounting, other overhead expenses.
Lease Expense	1.00	120,000	12.5%	Varies considerably based on location / land ownership etc.
Total Fixed Cost	\$3.35	\$402,304	41.9%	
Operating Income	\$2.63	\$315,296	32.8%	

Synergy Opportunities

- **Revenue:** Having multiple locations in the same city or town increases the value proposition of an unlimited membership. The subscription model is highly beneficial to an express car wash given the high gross margins, limited capacity concerns, and because it provides recurring revenue. Brand awareness and loyalty will also increase with multiple locations.
- **Detergents:** Increased purchasing power should facilitate some volume discounts from detergent suppliers. Other variable costs are utilities and thus not affected by scale.
- **Office / Administrative:** Savings realized through centralized back office functions and efficiencies of marketing spend.

Precedent Transaction Multiples

Significant multiple arbitrage between single location valuations and consolidated chain valuations is a key driver of value in a consolidation strategy

Date	State	Locations	Reported Financials				Sale Price as a Multiple of	
			Sale Price	Revenue	EBITDA	Margin	Revenue	EBITDA
Single Location Transaction Comparables [1]								
Mar-17	NY	1	\$1,650,000	\$1,259,480	\$328,935	26.1%	1.3x	5.0x
Mar-17	NY	1	875,000	725,000	279,200	38.5%	1.2x	3.1x
Mar-17	NY	1	650,000	1,100,000	250,000	22.7%	0.6x	2.6x
Feb-17	NY	1	1,400,000	1,000,000	259,186	25.9%	1.4x	5.4x
Dec-16	NY	1	850,000	936,000	306,000	32.7%	0.9x	2.8x
Nov-16	NY	1	2,700,000	1,806,114	654,099	36.2%	1.5x	4.1x
Nov-16	CA	1	4,700,000	1,700,000	600,000	35.3%	2.8x	7.8x
Oct-16	FL	1	390,000	557,394	104,211	18.7%	0.7x	3.7x
Aug-16	CA	1	1,100,000	850,000	250,000	29.4%	1.3x	4.4x
Jul-16	MA	1	2,900,000	565,000	416,852	73.8%	5.1x	7.0x
Jul-16	NY	1	689,000	700,000	232,100	33.2%	1.0x	3.0x
May-16	LA	1	1,849,000	921,054	295,000	32.0%	2.0x	6.3x
Feb-16	NY	1	950,000	650,419	299,115	46.0%	1.5x	3.2x
Jan-16	NY	1	850,000	1,200,000	309,300	25.8%	0.7x	2.7x
Jan-16	NY	1	1,000,000	906,750	342,950	37.8%	1.1x	2.9x
Jan-16	NY	1	700,000	1,280,000	287,700	22.5%	0.5x	2.4x
Oct-15	CA	1	900,000	900,000	250,000	27.8%	1.0x	3.6x
Oct-15	NY	1	2,400,000	1,346,640	678,928	50.4%	1.8x	3.5x
Aug-15	TN	1	545,000	500,000	100,000	20.0%	1.1x	5.5x
Jun-15	NY	1	1,600,000	1,700,000	600,000	35.3%	0.9x	2.7x
Jun-15	IL	1	300,000	600,000	200,000	33.3%	0.5x	1.5x
Average			\$1,380,857	\$1,009,707	\$335,408	33.5%	1.4x	4.0x
Median			950,000	921,054	295,000	32.7%	1.1x	3.5x
Chain / Consolidated Transaction Comparables [2]								
Jul-14	Mult.	134	\$450,000,000	\$134,000,000	\$40,200,000	30.0%	3.4x	11.2x
Pending	Mult.	17	98,000,000	23,200,000	9,800,000	42.2%	4.2x	10.0x
Average			\$274,000,000	\$78,600,000	\$25,000,000	36.1%	3.8x	10.6x
Median			274,000,000	78,600,000	25,000,000	36.1%	3.8x	10.6x

Significant
Premium
for Scale

Sources: Bizbuysell.com, PEHub.

[1] Represents all sold single conveyor car washes with financials data available and a cash flow of at least \$50k, per Bizbuysell.

[2] July 2014 transaction (sale of Mister Car Wash) estimates per public reports, an assumption of revenue based on averages calculated on Pg. 1, and assumed 30% EBITDA margin.

Case Study: Mister Car Wash

In the past several years, several investors have pursued a consolidation strategy in the car wash industry with demonstrable returns

- Mister Car Wash, the currently the largest chain in the country, was founded in 1996 and quickly became a consolidator
- In 2007, ONCAP bought the company for an estimated \$102 million, and proceeded to triple the size of the company by adding 100 locations over seven years almost entirely through acquisition
 - In 2014, ONCAP sold the company to Leonard Green for ~\$450 million, realizing a 7.3x return of initial capital
- Leonard Green has maintained the roll-up strategy by accretively adding an incremental 88 locations since purchasing the company
- Despite being now being the largest car wash chain in the country, it has **only 4% market share** of conveyor car washes indicating there is significant room to continue consolidating the sector

ONCAP Investment Summary

<i>(\$ in millions)</i>	<u>Entry</u>	<u>Exit</u>
Date	Apr-07	Jul-14
Locations	34	134
Revenue	\$34.0	\$134.0
EBITDA	\$10.2	\$40.2
Margin	30%	30%
Enterprise Value	\$102.0	\$450.0
Multiple	10.0x	11.2x
Equity (Invested) / Returned	(\$52.0)	\$380.0
Debt (Financed) / Repaid	(\$50.0)	\$70.0
MOIC	--	7.3x
IRR	--	31.5%

Leonard Green Investment Summary

<i>(\$ in millions)</i>	<u>Entry</u>	<u>Current</u>
Date	Jul-14	Apr-17
Locations	134	222
Revenue	\$134.0	\$247.5
EBITDA	\$40.2	\$74.3
Margin	30%	30%
Enterprise Value	\$450.0	\$831.3
Multiple	11.2x	11.2x
Equity (Invested) / Returned	(\$270.0)	\$555.0
Debt (Financed) / Repaid	(\$180.0)	\$276.3
Unrealized MOIC	--	2.1x
Unrealized IRR	--	29.9%

Consolidation Merits and Considerations

Highly Fragmented Industry

- Despite recent efforts to consolidate by some top companies and institutional investors, *the market today is still highly fragmented, with plentiful acquisition opportunities (single locations still trade for ~4x) and baby boomer sellers whose children often are uninterested in taking over the business*
- Increased scale drives valuation multiples, representing an multiple arbitrage opportunity
- Significant under-penetration by key chains in major markets across the US (Northeast / West Coast)
- Consolidation can be highly local – single mid-size urban or suburban center can support 30+ locations (i.e. you don't need to compete for California, you can compete for Sacramento)
- Limited integration risk, as operations operate independently and no concern about key sales relationships etc.

Industry Tailwinds

- On a same-store basis, conveyor car washes can expect mid-single digit growth due to:
 - (i) increased vehicle miles driven (2% historical CAGR) vs. stable carwash count (0.5% historical CAGR)
 - (ii) mix-shift toward professional washing and towards conveyor washes and
 - (iii) introduction of subscription model, creating recurring revenue and leveraging fixed costs

Clear Exit Paths

- Exit to financial sponsor (new entrant), a sponsor backed consolidator (Mr. Car Wash, IMU), with several expressing interest in taking a pure-play public
- Established valuation range of ~10x - 12x

Increasingly Crowded Trade

- *The increased interest in the industry by private equity and other investors due to the demonstrated success of the model presents the largest risk to the strategy, as competition for acquisitions will bid up bolt-on multiples*
- Companies like Mister Car Wash and Zips, Quick Quack have been very aggressive in their acquisition pace and geographic expansion over the past two years, although this also presents a viable strategic exit opportunity

Business Risk and Volatility

- Success of any given car wash is highly dependent on traffic patterns, which are subject to change (ex. office park next door closes down)
- Weather related volatility (ex. no car washes on rainy days, or potentially more washes due to snow film / road salt), somewhat mitigated by shift towards subscription model

Limited Synergies

- Relative to other roll-ups, the industry has relatively limited scalable costs, and therefore has limited margin expansion opportunity with scale (cost savings limited to volume discounts and back office centralization)

Illustrative Roll-up Summary

Below is an illustrative investment in Quick Quack, currently the 7th largest chain in the country with 29 locations predominately in Sacramento, California

LBO Summary							Sources & Uses		
(\$ in millions)	2016PF	2017	2018	2019	2020	2021	Sources	\$	X
Location Count	29.0	44.0	59.0	74.0	89.0	104.0	Bank Debt	43.7	4.5x
Platform Revenue	32.3	34.0	35.6	37.4	39.3	41.3	Sponsor Equity	55.7	5.7x
Plus: Acquisition Revenue	-	8.4	25.9	44.4	63.7	84.1	Total	99.4	10.2x
Total Revenue	32.3	42.3	61.6	81.8	103.0	125.3	Uses		
<i>Organic Growth</i>		5.0%	5.0%	5.0%	5.0%	5.0%	Purchase Price	97.0	10.0x
Operating Profit (pre-Corp)	9.7	12.7	18.5	24.5	30.9	37.6	Transaction Fees	1.9	0.2x
Corporate G&A	-	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	Capitalized Fin. fees	0.4	0.0x
Consolidated EBITDA	9.7	11.7	17.5	23.5	29.9	36.6	Total	99.4	10.2x
<i>% Margin</i>	30%	28%	28%	29%	29%	29%			
<i>Pro Forma EBITDA</i>	9.7	14.2	20.0	26.0	32.4	39.1			
Cash Flow							Annual Acquisition Assumptions		
Consolidated EBITDA		11.7	17.5	23.5	29.9	36.6	Locations		15.0
Less: Interest		(2.6)	(4.1)	(5.4)	(6.5)	(7.5)	Financial Profile		
Less: Taxes		(3.0)	(4.4)	(6.0)	(7.8)	(9.7)	Total Revenue		16.7
Less: Change in Net Working Capital		(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	EBITDA		5.0
Less: Direct Capex		(0.4)	(0.6)	(0.8)	(1.0)	(1.3)	<i>Margin %</i>		30%
Less: Mandatory Amort		(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Acquisition Detail		
Cash Generation		5.2	7.8	10.8	14.0	17.6	Purchase Multiple		6.0
Less: Acquisition Capex		(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	Purchase Price (adj. for NWC)		30.0
Net Acquisition Funding Need		(24.9)	(22.2)	(19.3)	(16.0)	(12.4)	Average Acquisition Timing		June 30th
Debt Financing (5x Max PF Leverage)		24.9	22.2	19.3	16.0	12.4			
Equity Financing		-	-	-	-	-			
Net Change in Cash		-	-	-	-	-	Net Sponsor Returns		
Bank Debt	43.7	68.1	89.9	108.7	124.2	136.2	Exit Multiple		10.0x
<i>Debt / PF EBITDA</i>	4.5x	4.8x	4.5x	4.2x	3.8x	3.5x	Proceeds (after debt & mgmt plan)		244.9
<i>PF EBITDA / Interest</i>		5.4x	4.9x	4.8x	5.0x	5.2x	Net Gain		189.2
							Net MOIC		4.4x
							Net IRR		34.4%

Illustrative Roll-up Sensitivity

MOIC Sensitivity

		Acquisitions / Yr				
		9	12	15	18	21
Acq. Purchase Multiple	4.0x	3.9x	4.6x	5.3x	6.0x	6.8x
	5.0x	3.6x	4.2x	4.9x	5.5x	6.1x
	6.0x	3.3x	3.9x	4.4x	4.9x	5.5x
	7.0x	3.0x	3.4x	3.8x	4.2x	4.5x
	8.0x	2.7x	2.9x	3.1x	3.2x	3.3x

		Exit Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x
Entry Multiple	8.0x	4.7x	5.8x	6.8x	7.8x	8.9x
	9.0x	3.7x	4.5x	5.3x	6.1x	7.0x
	10.0x	3.1x	3.7x	4.4x	5.1x	5.7x
	11.0x	2.6x	3.2x	3.7x	4.3x	4.9x
	12.0x	2.3x	2.8x	3.3x	3.7x	4.2x

		Operating Margins (Pre Corp)				
		25.0%	27.5%	30.0%	32.5%	35.0%
Organic Growth	3.0%	2.4x	3.2x	4.0x	4.6x	5.2x
	4.0%	2.6x	3.4x	4.2x	4.8x	5.4x
	5.0%	2.8x	3.6x	4.4x	5.0x	5.7x
	6.0%	3.0x	3.8x	4.6x	5.3x	6.0x
	7.0%	3.2x	4.0x	4.9x	5.6x	6.2x

\$ Gain Sensitivity

		Acquisitions / Yr				
		9	12	15	18	21
Acq. Purchase Multiple	4.0x	159.6	200.1	240.7	281.2	321.8
	5.0x	144.1	179.5	214.9	250.3	285.7
	6.0x	128.7	158.9	189.2	219.4	249.6
	7.0x	113.2	138.4	163.7	188.9	214.2
	8.0x	98.0	118.3	138.6	159.0	179.4

		Exit Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x
Entry Multiple	8.0x	133.7	170.8	208.0	245.1	282.3
	9.0x	124.3	161.4	198.6	235.7	272.9
	10.0x	114.9	152.0	189.2	226.3	263.5
	11.0x	105.5	142.6	179.8	216.9	254.1
	12.0x	96.1	133.2	170.4	207.5	244.7

		Operating Margins (Pre Corp)				
		25.0%	27.5%	30.0%	32.5%	35.0%
Organic Growth	3.0%	96.9	130.7	164.7	199.2	233.7
	4.0%	106.8	141.7	176.8	212.3	247.8
	5.0%	117.1	153.0	189.2	225.7	262.2
	6.0%	127.6	164.6	201.9	239.5	277.1
	7.0%	138.5	176.5	215.0	253.7	292.4

Appendix: Historical Market Data

US Census Data

	Actual				Est.	Actual CAGR			Est.
	1997	2002	2007	2012	2017	'97 - '02	'02 - '07	'07 - '12	'12 - '17
<u>Firms and Employment</u>									
Number of Establishments	13,683	13,962	15,384	14,782	14,782	0.4%	2.0%	(0.8%)	0.0% < Assumption
Employees per establishment	9.0	9.7	9.7	9.3	9.3	1.4%	(0.0%)	(0.8%)	0.0% < Assumption
Total Employment	123,602	135,315	148,884	137,822	137,768	1.8%	1.9%	(1.5%)	(0.0%)
Annual payroll (\$MM)	\$1,253	\$1,652	\$2,061	\$2,222	\$2,334	5.7%	4.5%	1.5%	1.0%
Payroll per employee (\$)	\$10,134	\$12,205	\$13,840	\$16,121	\$16,943	3.8%	2.5%	3.1%	1.0%
<u>Revenue</u>									
Total Revenue (\$MM)	\$3,911	\$5,092	\$6,157	\$7,024	\$7,755	5.4%	3.9%	2.7%	2.0% < Assumption
Revenue per establishment (\$1,000)	\$286	\$365	\$400	\$475	\$525	5.0%	1.8%	3.5%	2.0%
Revenue per employee (\$1,000)	\$31,642	\$37,631	\$41,354	\$50,964	\$56,291	3.5%	1.9%	4.3%	2.0%
Revenue / Payroll	3.12x	3.08x	2.99x	3.16x	3.32x	(0.3%)	(0.6%)	1.1%	1.0%
Revenue per capita (\$)	\$14.00	\$18.00	\$20.00	\$22.00	\$24.10	5.2%	2.1%	1.9%	1.8%
<u>Population</u>									
Population per establishment	19,926	20,601	19,581	21,236	21,772	0.7%	(1.0%)	1.6%	0.5% < Assumption