




## **CAR WASH INDUSTRY PERSPECTIVE**

CONFIDENTIAL

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2019

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***NB Group (“NBG”) is an entrepreneurial private investment firm focused on growing small and medium size multi-unit retail business in North America***

## We take a different approach to investing in businesses

Characteristic	NBG model	Typical PE firm
<b>Team</b>	Former consultants and operators with deep Consumer experience	Former bankers, “Wall St” types
<b>Industry knowledge</b>	Specific focus on multi-unit Car Wash space	May simply be opportunistically pursuing any business with attractive margins, growth, etc.
<b>Portfolio size</b>	Only 3-5 investments, concentrate risk	8-20+ investments, bad outcome on an investment is ok because of portfolio approach
<b>Investment style</b>	Make investments to grow business	Push on debt load, look for ways to cut costs
<b>Transaction structure</b>	Highly flexible, align transaction structure with seller’s goals	Rigid structure across deals (e.g. owner has to go/stay)
<b>Operational value add</b>	Former consultants and operators; partners to management without interfering with day-to-day operations. Limited # of investments allows us to focus on helping grow companies.	Focus on financial reporting, busy chasing new deals
<b>Process</b>	2 decision makers, immediate decisions	Multiple partners, “investment committee” decision making
<b>Deal tactics</b>	Don’t make commitments we can’t keep (limited time/resources), honest and open communication	Promise aggressive terms, but often have to renegotiate later on
<b>Funding model</b>	Customize investor base for each transaction - ideally include investors with relevant experience, no outside pressure to put capital to work	Generic investor base lack relevant experience, pressure to do deals even if not passionate about the business

# {} NB Group – Retail & Consumer Investing

## Investment Team & Industry Advisors

### Neel Bhargava

- **Founding Partner, NB Group**
- Investment Team, Berkshire Partners (Retail focus)
- Board Observer, Party City (NYSE: PRTY)
- Advisor to CFO, Aritzia (TSE: ATZ)
- Consultant, Bain & Co.
- MBA, Harvard Business School

### Ariez Dustoor

- **Partner, NB Group**
- Investment Team, Audax Group PE
- Co-Founder, Glossy Box (e-commerce)
- Co-Founder, Scout Finance
- Consultant, McKinsey & Co.
- BA, University of Michigan

### Mark Archer

- **Operating Advisor, NB Group**
- President, WSS (Specialty Retail)
- CFO, EZ LUBE
- CFO, Jamba Juice
- CFO, Del Taco



## Mutli-Unit Retail Portfolio



### CR Fitness

Based in Tampa, FL, CR Fitness is one of the largest and fastest-growing franchisees of Crunch gyms in the United States. NB Group completed a recapitalization of the company alongside the existing management team in 2018.

## NB Group sees a compelling opportunity to invest in and consolidate the Express Car Wash space

After extensive research and evaluation of several multi-unit retail models, we have identified Car Washes – specifically Express – as a highly attractive area for us to invest

The Car Wash market is undergoing a transition away from full service and self-serve models to “express” formats that are quicker, cheaper, and more environmentally friendly. Macro market trends – growing US car fleet, increased environmentalism, etc. – provide strong underlying support for market growth.








Express Car washes possess high margins, stable revenue, and low capex requirements. Additionally, adoption of recurring revenue membership models is growing.

The car wash space remains extremely fragmented. NBG thesis is focused on consolidation of the Express segment through add-on acquisitions, creating opportunity for multiple arbitrage and to drive operational efficiencies.

Opportunity for NBG to partner with a great operator with an existing footprint that can be used as a platform to create a larger regional player through add-on acquisitions. NBG can help lead consolidation in the industry and create a scale player.

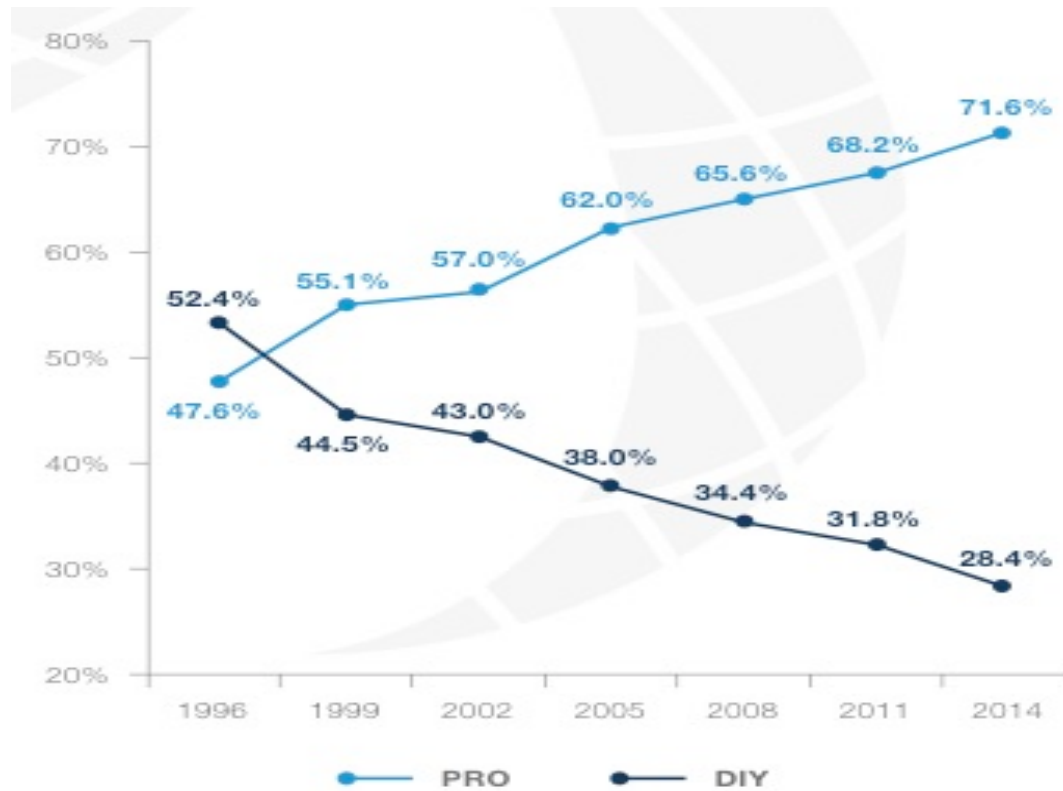


# Express car wash industry has several attractive characteristics

Industry Characteristics		Description
1	<b>Stable and growing industry</b>	 <ul style="list-style-type: none"><li>3.1% industry CAGR over last 5+ years</li><li>Limited threat of technology disruption. At-home car washing in decline, many local residential areas putting in place water use restrictions</li><li>Decline in consumers washing at home (e.g. 38% of consumers washed at home in 2005 vs. ~28% in 2014)</li></ul>
2	<b>Attractive margins and cash flow generation</b>	 <ul style="list-style-type: none"><li>Well-run operators that embrace technology can have \$1.5m+ sales per location and 50%+ EBITDA margins, some operators significantly better</li><li>Low ongoing capex requirements, limited working capital</li></ul>
3	<b>Industry transition towards lower cost Express formats</b>	 <ul style="list-style-type: none"><li>Traditional full service models under pressure from Express formats with \$3-5 entry price point</li><li>Low cost model is highly compelling to consumers, will drive increased wash volume</li></ul>
4	<b>Recurring revenue models gaining traction</b>	 <ul style="list-style-type: none"><li>Adoption of membership models by consumers is growing driven by adoption of Express formats</li></ul>
5	<b>Opportunity to drive synergies through scale</b>	 <ul style="list-style-type: none"><li>Better operators can drive operational best practices (e.g. upsell customer)</li><li>Procurement savings grow with scale</li><li>Fixed cost leverage (e.g. regional manager cost spread out over more revenue as scale grows)</li></ul>
6	<b>Highly fragmented industry</b>	 <ul style="list-style-type: none"><li>Vast majority of the 28k dedicated locations are independently owned by 1-3 location operators</li><li>Top 4 companies account for ~5% of industry sales. Largest platform – Mister Car Wash – only has ~270 locations.</li></ul>
7	<b>Attractive acquisition multiples, financing options</b>	 <ul style="list-style-type: none"><li>1-3 unit operator acquisitions available at reasonable multiples</li><li>Sale-leaseback opportunity can free up cash</li></ul>

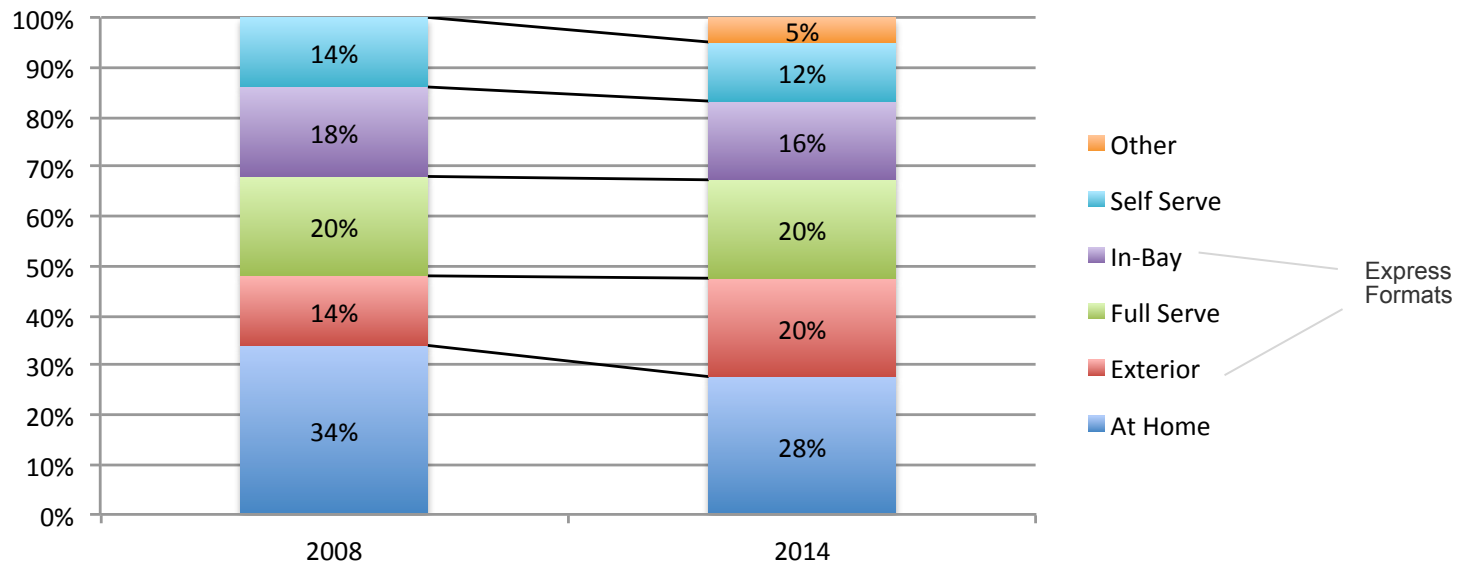
☐☐ Consumers increasingly utilizing car washes, which is helping drive industry growth

Where Consumers Washed their Car Most Often: At Home vs. Professional



Express Formats gaining share and helping drive consumer's frequency of use

Where Consumers Washed their Car Most Often: Type of Format



Conveyor formats in particular are quickly gaining share



# Three primary industry formats; NBG focused on Express

Formats	Price	Time & Format	Labor Cost	Other services	Other
Full Service	\$10-20+	15-20 mins, exterior and interior, car owner may have to exit car	40%+ of revenue	Lube, C-store, fuel, hand wash	May require larger physical footprint
Express	\$3-7	~5 mins, exterior only	~20% of revenue	Self-serve vacuum, additional upsells (e.g. wax)	
Self-Serve	\$3-7	15-20 mins		Self-serve vacuum	

**NBG Focus**



Express example (conveyor belt format) with self-serve vacuums



Self-serve example

## Industry is shifting to Express formats given several advantages they offer

### Key advantages offered by Express formats

1. Smaller physical footprint
2. Lower labor requirements (50%+ lower as a % of sales) lead to better margins
3. More compelling consumer value prop (faster, cheaper, and less effort)
4. Lower price helps solve consumer's #1 barrier to car wash adoption, which is expense.
5. Better operating economics make it easier for Express formats to offer membership plans
6. Growing consumer focus on the environment is boon for Express formats, many of which can recycle 80%+ of water

**Express formats gaining share (e.g. 90%+ of all new tunnel car washes built in 2017 were for Express format)**

**Full service and self-serve players converting to Express model**

# Express Washes have challenges, but they can be mitigated

1

**Competition** likely to intensify given low barriers to entry

2

**Limited competitive differentiation**

3

**Few existing scale platforms** to invest in

## NBG viewpoint & Mitigants

- Limited barriers to entry other than capital and available locations
  - New/expanded competition could include big box retailers, car dealers, and gas/convenience stores
  - Well-run operators can withstand greater competition though, mom and pop owners will be squeezed as consolidation increases
  - Adoption of membership models will help drive customer retention
- 
- Difficult to offer a truly differentiated product
  - But similar to many other multi-unit retail markets (auto repair, gyms, etc.), differentiation comes from excellence in operations and real estate selection. Additionally, scale brings operating synergies and drives exit multiple.
- 
- Given extreme fragmentation, limited number of express chains with scale (~45 chains with 10+ units)
  - NBG willing to start with smaller platform (4+ units) and grow aggressively with add-ons



# NBG ideal investment criteria for a Express Car Wash platform acquisition

NB Group is seeking to acquire a US-based company with in existing footprint of express car washes in a given geography. Below is meant as general guidance, we are highly flexible and will look at variety of situations.

## General Criteria for Express Car Wash Platform Investment

- **Financials:** \$2M+ EBITDA with history of consistent performance
- **Operations:** 4+ locations, consistent wash volumes, leverage new technologies
- **Format:** express convey car washes, can include self-vacuuming capability and/or other services; will consider operators with full-service or self-serve locations that have plan to convert to express.
- **Growth:** opportunity to accelerate through add-on acquisitions, new units, and/or operational improvements
- **Geography:** anywhere in US or Canada; existing units should be in a single geography with opportunity to grow regional footprint
- **Investment type:** preference for majority acquisition, will also consider significant minority investment
- **Management:** flexible, open to either management staying or putting in place new leadership.
- **Other:** preference for seller rollover equity of 10% or much more, and desire for seller to participate in future upside



## Get in touch

### Contact information

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### Location



### NB Group

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# Appendix

## Case Study: NBG investment in multi-unit fitness chain

*Headquartered in Tampa, CR Fitness (CRF) is a leading franchisee of Crunch Fitness, one of the fastest-growing gym operators in the US. NBG closed a large investment into the Company in April 2018.*

- NBG developed an investment thesis around the low-cost gym space in early 2017 and was introduced to CRF through a proprietary introduction in the summer of 2017
- We were attracted to CRF's strong historic performance, management team strength, and vision to significantly grow through new unit openings
- NBG worked patiently with the company's owners to customize a transaction that met their objectives of (i) continuing to run the business; (ii) retaining a significant ownership stake; (iii) taking chips off the table; and (iv) putting in place long-term institutional funding for aggressive new unit growth
- NBG now serves on CRF's Board of Directors; we are not involved in day-to-day operations, but are helping the company create a long-term strategic plan and to provide financing to support unit expansion
- As a result of our investment, CRF now has an institutional investor to help fund and accelerate future growth – without the requirement for personal guarantees or other onerous terms for leases and financing



**NBG can partner with business owners to help them diversify their wealth, de-risk and accelerate growth, and increase future value**



# Value addition case study: strategic planning at Party City

*NBG's Partners have a depth of experience developing long-term strategic growth plans for companies of all sizes, including Party City, a leading US retailer*

## Strategic Planning

- Party City, a former Berkshire Partners private equity portfolio company with \$1.5B Revenue, was facing a challenging retail environment during the Great Recession and needed help developing a strategic plan
- Neel worked directly with the company's CFO, COO, and President to develop a 5-year plan and financial model, present to Board of Directors, and implement
- Growth levers included:
  - E-commerce launch
  - Same store sales growth
  - New store openings
  - International expansion and new product launches
  - Acquisitions

## Value Creation

- Identified growth levers and implemented plan to increase EBITDA by over 50% (\$100M+) over 5 years
- Berkshire Partners sold its stake in the company 3 years later for a very strong return
- Party City (NYSE: PRTY) was taken public in 2015 and is currently valued at ~\$1.5 billion



**NBG brings this playbook to companies at a much smaller scale, creating opportunity for even greater impact**





## Case Study #2: building an M&A pipeline

*NBG's Partners have significant experience developing M&A strategies and acquisition pipelines for a variety of companies, including smaller private equity backed companies and large public companies*

### M&A Strategy & Execution

- Yahoo! was looking to accelerate its efforts to enter the SMB segment with new products and technologies
- Goal was to significantly accelerate Yahoo's internal product development efforts and find engines for new revenue growth
- Ariez worked closely with Yahoo's CFO and Business Unit leaders to identify, prioritize, and reach out to potential acquisition targets in the SMB space
- Resulted in a pipeline of 100+ companies and conversations/meetings with 50+ potential targets over the course of 12 months

### Concrete Results

- Yahoo! performed in-depth due diligence on four acquisition targets and received Board approval to make formal offers on all four targets with potential total deal value of nearly \$4b
- Yahoo! was able to acquire Associated Content, an online publishing platform, as part of this effort
- The acquisition gave Yahoo and immediate asset it could use to become a major player in local content. The acquired company's team remained after the acquisition was completed and received significant additional resources.

**NBG can function as an “outsourced” corporate development team for our portfolio companies to find, structure, and finance strategic add-on acquisitions**