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Memorandum

To: CRA

From: Mercedes Blanca, MEBA Program Manager

Date: March 27, 2014

Re: MEBA Applicant – Dasumakim, LLC d/b/a Sunshine Coin Laundry

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On Wednesday, February 26th, 2014, Dasumakim, LLC's MEBA application package was presented to the MEBA Board. The Board recommended approval of up to $40,000 in business assistance to Dasumakim, LLC towards the purchase of various items, which are listed in the table below.

Please note that the initial request for funding by Dasumakim, LLC was for $39,980, however, the Board made the decision to recommend approval of up to $40,000, the maximum allowable amount through MEBA, in light of the fact that the applicant is acquiring rebuilt washers which vary in price.

On Wednesday, March 26th, 2014, the CRA Advisory Board also recommended approval of up to $40,000 in business assistance to Dasumakim, LLC.

Proposed Capital Equipment Purchase/Improvements for Sunshine Coin Laundry - MEBA

Qty	Equipment/Improvement	Description	Cost/Unit	Shipping & Tax	Total
4	Continental 40lb Capacity Model LI040 Washers	Rebuilt high efficiency commercial washers with electronic controls	$ 3,400	$ 1,672	$15,272
1	Continental 75lb Capacity Model LI 075 Washer	High efficiency commercial washer	$ 12,447	$ 1,673	$14,120
	Installation Costs for 5 Washers (above)	Removal of 1988 era washers and installation of new washers by R&R Direct	$ -	$ -	$ 2,110
2	Takagi T-K4-IN Tankless Water Heaters	High efficiency tankless commercial water heaters to replace present 1986 era boiler	$ 899	$ -	$ 1,798
1	Rheem G76-200 High Efficiency Commercial Holding Tank/Water Heater	To replace Ruud main holding tank/water heater from 2002	$ 2,963	$ -	$ 2,963
	Installation Costs for Takagi Tankless Units and Rheem G76-200 Water Heater (above)	Removal of both older, inefficient water heaters and installation of newwater heaters by Larry's Gas Svc.	$ -	$ -	$ 2,909
	Repairs to eight (8) existing ADC Dryers	Replacement of bearings and electronic upgrades to increase efficiency - Repairs by R&R Direct	$ -	$ -	$ 965
6	New Fiberglass Variable Height Folding Tables	Includes removal of existing innefficient single height folding tables	$ 514	$ -	$ 3,087
8	Standard Laundry Carts Model 100E58	These double pole rack carts will replace existing worn laundry carts	$ 150	$ -	$ 1,198
				Total	$44,422
		Applicant's Minimum Investment 10%			$ 4,442
		Total Requested for MEBA Consideration			$39,980

MEBA Application Analysis

***Conducted by:** JCN Marketing Solutions, LLC*

***For:** City of Orlando Community Redevelopment Agency*

Applicant Name(s):	Sue McCreary and David McCreary
Business Name:	Dasumakim LLC – DBA **Sunshine Coin Laundry**
Project Address:	700 West Livingston Street, Orlando, FL 32801 *(Corner of N. Parramore Avenue and Livingston Street)*
Date:	February 24, 2014

Introduction

JCN Marketing Solutions, LLC reviewed the application, financial statements and supporting application documents of Sunshine Coin Laundry submitted to the City of Orlando MEBA Program manager. We conducted in-person interview with the owners of Sunshine Coin Laundry and performed our due diligence on industry trends, market outlook, and a thorough financial analysis. This report summarizes our findings and recommendations.

Industry and Business Background

Coin operated laundry businesses are considered recession-proof passive income generating, turn-key operations that can weather good and bad economic times since customers' need for clean clothes is as basic as their need for food and shelter. Sunshine Coin Laundry has provided this basic public health service to the Parramore trading area and surrounding community on a daily basis since 2010. Prior to that, the facility, under a different owner, successfully served the Parramore area for approximately 30 years. Presently, there are more than 1,000 registered coin-operated laundry companies in Florida under SIC code of 7215 and NAICS code 812310.

Business Background & Needs

Sunshine Coin Laundry was purchased by Korean-born Ms. Sue McCreary and her husband David McCreary in 2010 for $295,000. Immediate leasehold improvements and services yielded a 21% increase in sales revenues for the firm during the first year of operation under new ownership, and a subsequent steady 5 – 7% annual sales growth since then. In 2012, the company generated over $190,000 in sales, and approximately the same in 2013. Meanwhile, the aggressive loan repayment schedule used by Mr. and Mrs. McCreary in their first 42 months of ownership has resulted in the payoff of more than $210,000 in debt (a note payable for $95,000 to the previous owner, and a start-up loan from Citizen's Bank for $117,000). This rapid repayment plan was a very healthy move to maintain their business credit worthiness high and avoid additional interest costs. However, in 2013, equipment purchases and repairs that had been postponed during these three years began affecting their most profitable machines and negatively impacting their utility costs; the business was adversely affected. Sunshine Coin Laundry owners infused additional capital into the business to replace and repair long overdue equipment. For this reason, the firm did not show a profit in 2013. The firm owners have approached the MEBA Program to seek funding for much needed newer, more energy efficient equipment that will replace outdated and non-functioning machinery while increasing revenues and profits through energy efficiency, and decreasing water utilization and waste water generation, while providing customers with cost savings in laundry products and cycle time, and improving the overall quality of their wash and service experience.

Industry Trends and Characteristics

The Coin Laundry Association reports there are approximately 35,000 coin laundromats in the US, which generated approximately $5 billion gross annual revenues in 2013. The industry, which is projected to grow to $6 billion next year, is approximately 60 years old, and players include individual owner operators or franchisees who rent retail space in highly populated areas. Market value for coin laundry businesses can range from $50,000 to more than $1 million, and can generate cash flow between $15,000 and $200,000 per year, according to the Coin Laundry Association. Business hours typically range typically from 6 a.m. to 10 p.m., and the facilities usually range from 1,000 to 5,000 square feet of retail space, with an average of 2,260 square feet. New coin laundries are valued based on actual construction and equipment costs, while existing coin laundries are valued based primarily on revenues.

Local Outlook

The steady population growth in the Parramore trading area, combined with the construction of additional 1,500 residential rental units as a result of the planned Creative Village in downtown Orlando will bring additional customers to Sunshine Coin Laundry, which sits directly across the street from this new large development complex.

Costs of Operating a Laundromat

Unlike more labor-intensive businesses, a coin operated laundry business requires very little overhead costs. Aside from rent, utilities, maintenance and repair costs, very minimal physical or administrative labor is required.

- Commercial Rent Expense
- Attendant/Cleaning Service
- Machine Maintenance
- Machine Replacement over-time
- Water
- Sewage
- Gas

MEBA Funding Request & Purpose

Sunshine Coin Laundry is requesting a MEBA Grant in the amount of **$39,980** *(Total $44,422 minus 10% Applicant Investment)* for expenditures in Capital Equipment and Improvements that include:

Proposed Capital Equipment Purchase/Improvements for Sunshine Coin Laundry - MEBA					
Qty	**Equipment/Improvement**	**Description**	**Cost/Unit**	**Shipping & Tax**	**Total**
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				Total	**$44,422**
		Applicant's Minimum Investment 10%			**$ 4,442**
		Total Requested for MEBA Consideration			**$39,980**

Funding Objectives

Based on information provided on their application, the following are Sunshine Coin Laundry's objectives:

1. Remove five old, energy inefficient washers manufactured between 1986 and 1988 and replace them with five newer generation, electronically controlled energy efficient washers in order to decrease water consumption, waste water, washing time and soap needed for each cycle. This will result in lower operating costs and utilities for the firm, and increased performance, expediency, quality of wash and lowered costs for customers.
2. Remove two water heating units manufactured in 1986 and 2002 and replace them with a new system consisting of two high efficiency tankless heaters and a storage tank. This will result in increased efficiency, lower electricity and natural gas utilization, decreased carbon

footprint and increased net profits for the business.

3. Repair eight (8) ADC dryers to increase reliability and profitability.
4. Purchase six (6) new adjustable folding tables and eight (8) new laundry carts to replace worn, rusted carts and obsolete folding tables to improve customer experience through convenience and comfort.

Success Factors

Determining the success of a coin operated laundry business is directly linked with the location's safety, security, cleanliness, convenience and comfort for the customer. Upon visiting Sunshine Coin Laundry, the following characteristics become apparent as compared to its two trade area competitors. 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.

Sunshine Coin Laundry has two small competitors within its three mile trading area, however, neither of these two competitors have a clean working bathroom, nor comfortable, clean or safe facilities. There are also problems with loitering at the other two competitors' stores.

Safety and Security – If clients don't feel comfortable, they go elsewhere. Based on a survey of the location, we observed that Sunshine Coin Laundry pays special attention to areas of safety and security in the following manner:

- Glass store front for customers to see through prior to entering the premise.
- Clean sight lines within the store for customers to know who surrounds them at all times.
- Minimum hiding spaces
- Plenty of lights inside for customers to see their surroundings clearly and for approaching customers to assess safety inside the laundry facility prior to entering.
- Outside lights in parking lot
- Security cameras (these were not observed, but were discussed)
- Loitering is not allowed and is closely monitored

Cleanliness – Customers are performing a cleaning function, so the store must be very clean and comfortable as well as attractive to capture the local market. Sunshine Coin Laundry places emphasis on the following:

- Clean bathrooms (something that is not offered by other competitors in the area)
- Clean floors
- Bright surroundings
- Clean ceiling tiles - no water stains

- All light bulbs working

Convenience – Customers can travel on average up to 10 – 15 minutes to their laundromat choice, Sunshine Coin Laundry offers the following to attract and retain its customers:

- Convenient location with easy access
- Ample and well lit parking
- Easy-to-open doors
- Extensive Hours of Operation – 7:30 a.m. to 10:00 p.m. Seven days per week
- Good mix of washers and dryers in varied sizes (40 – 70 lbs) – **MEBA Grant Item**
- Updated equipment that requires less water, generates less sewage, provides for ease of operation, quicker washing time, and a better quality wash using less soap. This results in considerable savings for the business and the customer. – **MEBA Grant Item**
- Attendant/Cleaning Service: respectful, courteous, helpful – Sunshine Coin Laundry outsources cleaning services from a local resident who remains in the facility, providing service to customers, controlling loitering issues, while generating additional revenue for her business by offering wash, dry and fold services. In the near future, the firm is looking to hire a part-time attendant, and as service needs grow, may incorporate a full-time employee for this role.
- Vending machines for laundry supplies, snacks, water and soda
- Ironing station (was not seen, but discussed)
- Additional services such as *Wash, Dry and Fold* are offered by the on-site attendant

Comfort – Trends in the coin operated laundry industry illustrate the importance of customer comfort as a way of staying relevant and competitive, prompting loyalty and repeat business. Sunshine Coin Laundry ensures customer comfort through:

- Climate controlled facility (A/C and heat)
- Attractive atmosphere, décor and overall upkeep of building (*more is planned based on separate City of Orlando Façade Improvement program*)
- Comfortable seating units
- Television where appropriate
- Folding tables that are durable and height adjustable - **MEBA Grant Item**
- Sufficient laundry carts with hanging rods - **MEBA Grant Item**
- Kiddie area (*was not seen, but discussed for possible Façade Program*)

Ongoing Equipment Replacement - The useful life for commercial coin laundry equipment depends on usage, sales volume and maintenance. However, the accepted standard is:

- Top load Washers (12 lbs. to 14 lbs.): 5-8 years

- Frontload Washers (18 lbs. to 50 lbs.): 10-15 years
- Dryers (30 lbs. to 60 lbs.): 15-20 years
- Heating Systems: 10-15 years
- Coin Changers: 10-15 years

Business Plan Observations

Sunshine Coin Laundry's business plan recognizes the following:

1. **Strengths and Opportunities:**
    a. The business offers largest capacity washing machines in the Parramore service area.
    b. Loitering on property was eliminated thanks to continuous supervision by a combination of cleaning service personnel, concession personnel, owner and repairman.
    c. Barriers to entry for competitors are high and include impact fees that surpass $3,000 per each new washer regardless of age.
2. **Financial Projections:** Sales projections assume a growth factor of 5 – 7% annually, with realistic concessions for seasonability of the business. Cost variations are accounted for projected fluctuations in electrical, water, sewage and natural gas prices. Also, funding provisions for a façade improvement plan are accounted for in the three-year projections. In all cases, now that debt has been paid off, repairs and equipment replacements are incorporated into each year's projections.
3. **Management Team:** Business partners have more than 28 combined years of experience in ownership, management, maintenance and repair of coin operated laundry businesses.
4. **Marketing Strategies:** No mention of marketing strategies besides word of mouth promotion and seasonal raffles for customers.
5. **Staffing and Alliances** – Presently, Sunshine Coin Laundry outsources cleaning services to a third party who staffs the laundromat daily and performs wash, dry and fold tasks for customers who pay them separately. The company plans to transition from an outsourced cleaning service to a hired employee by 2015 to accommodate projected needs of a growing customer base with varying service needs as 1500 rental housing units are added in the adjacent Creative Village.

Financial Analysis

Limitations

Analyzing financial statements present an opportunity for reviewing past data and possible budgets. However, the data used in this analysis is historical in nature, indicating it may not be a good representation of the future due to unforeseeable circumstances. Market value of assets and liabilities can be under or overstated significantly leaving statement analysts unaware of the real value of a balance sheet.

Methods

To support additional marketing and financial decisions, we evaluated Sunshine Coin Laundry financial conditions. With the exception of the financial data for 2013, all other financial information was provided to us in the form of a Balance Sheet and Statement of Income & Expense prepared and filed with the State of Florida by Sunshine Coin Laundry's accounting firm.

JCN Marketing Solutions performed the following:

- **Vertical Analysis** known as **Common Size Ratio**. On the income statement, percentages represent the correlation of each separate account to net sales. Vertical analysis performed on Balance Sheets uses total assets and total liabilities for comparison of individual balance sheet accounts.
- **Horizontal Analysis**: We compared the data set for two periods (2012 and 2013) using 2012 as the initial baseline. We look for growth in revenue, net income and assets in addition to reductions in expenses and liabilities. Calculating absolute dollar changes requires the subtraction of the base figure from the current figure. Expressing changes with percentages requires the division of the base figure by the current figure, and multiplication by 100.
- **Ratios and Trend Analyses** were performed for four periods (2010, 2011, 2012, and 2013). These ratios express a relationship between two more financial statement totals. We group the ratios into common categories: Liquidity, Profit & Profit Margin, Sales, Assets, Borrowing, Employees, and Solvency. Reviewing ratios for performance compared with prior periods for trending patterns provides us recognition of strengths and weaknesses of Sunshine Coin Laundry.

Vertical and Horizontal Analyses – Common Size Ratios *(Years ending 2012 and 2013)*

Analyzing a single period financial statement works well with vertical analysis. We selected the last two years of 2012 and 2013 financial data for our analyses. Note that the data provided to us for the year ending 2013 was raw data. Sunshine Coin Laundry's accounting firm had not certified the data at the time we received it, whereas the 2012 data had been certified. The vertical and horizontal analyses give us a “quick snap shot” of the financial conditions of Sunshine Coin Laundry for further in-depth analysis. The common size Balance Sheet and Statement of Income from Sunshine Coin Laundry are illustrated in the following sections:

Common Size Ratios from the Balance Sheet – Two-year comparison

	Year Ended 12/31/12		Year Ended 12/31/13		Variance
Current Assets					
Citizen Bank of Florida	$12,857	6%	$20,779	9%	62%
Inventory	$2,199	1%	$2,199	1%	0%
Total Current Assets	$15,056	7%	$22,978	10%	53%
Fixed Assets					
Machinery & Equipment	$221,190	98%	$233,045	98%	5%
Accumulated Depreciation [-]	$71,730	-32%	$102,413	-43%	43%
Total Fixed Assets	$149,460	66%	$130,632	55%	-13%
Other Assets					
Covenant Non Compete	$34,060	15%	$34,060	14%	0%
Goodwill	$39,000	17%	$39,000	16%	0%
Accumulated Amortization	$11,771	5%	$11,770	5%	0%
Total Other Assets	$61,289	27%	$84,830	36%	38%
Total Assets	$225,605	100%	$238,440	100%	6%
Long-Term Liabilities					
Loan from Stockholder	$137,446	72%	$137,446	97%	0%
Loan from Citizen	$28,634	15%	$3,929	3%	-86%
Note Payable: Noukeo	$25,372	13%	$-	0%	-100%
Total Long-Term Liabilities	$191,452	100%	$141,375	100%	-26%
Total Liabilities	$191,452	100%	$141,375	100%	-26%
Stockholders' Equity					
Retained Earning	$34,151	15%	$(4,935)	-4%	-114%
Total Stockholders' Equity	$34,151	15%	$(4,935)	-4%	-114%
Total Liabilities and Stockholders' Equity	$225,603	100%	$136,440	100%	-40%

The common size ratios of Sunshine Coin Laundry reveal the main strategy of its management to reduce their debt as soon as possible, and use the business as a passive income generator. The company took out two loans to finance its operation in 2010; one from Citizens Bank of Florida for $117,000 and the other as a note from the previous owner Noukeo for $95,000. At the end of 2013, Sunshine Coin Laundry had paid off the note, and had reduced 86% of its loan balance from Citizen Bank to a balance of $3,929. The remaining of this loan is expected to be paid off by April of 2014.

The strategy of accelerating the debt reducing has both positive and negative impacts. The short-term effect can be seen in the Stockholder Equity drastically decreasing at the end of 2013 compared with 2012, but it can also limit the company's ability to financially operate smoothly. Sunshine Coin Laundry delayed some major maintenance and rebuilds of some of its machines in order to maintain its aggressive payoff plan. This delay began to impact the firm's revenue due to machine down-time and small fires, and management had to inject additional cash to pay for the maintenance, repairs and a few replacements. <u>However, the long-term gain from the debt reducing provides Sunshine Coin Laundry a greater margin of safety to meet the current liability and operation costs, thus increasing the stockholder's equity.</u>

Common Size Ratios from Statement of Income – Two-year comparison

	Year Ended 12/31/12		Year Ended 12/31/13		Variance
Income					
Revenue Sales	$192,263	100%	$186,015	100%	-3%
Cash			$7,922	4%	
Total Income	$192,263		$193,937		1%
Operating Expenses					
Outside Services	$11,031	6%	$12,597	7%	14%
Rent	$57,510	30%	$63,470	34%	10%
Utilities	$30,612	16%	$38,186	21%	25%
Repairs	$1,043	1%	$13,511	7%	1195%
Gas Supply	$10,638	6%	$10,000	5%	-6%
Tangible Property Tax	$440	0%	$1,203	1%	173%
Real Estate Taxes	$4,819	3%	$4,976	3%	3%
Licenses & Fees	$249	0%	$1,797	1%	622%
Interest Expense	$6,770	4%	$10,082	5%	49%
General Insurance	$4,586	2%	$4,996	3%	9%
Depreciation	$30,684	16%	$33,684	18%	10%
Amortization	$4,871	3%	$4,871	3%	0%
Total Operating Expenses	$163,253	85%	$199,373	107%	22%
Net Income	$29,010	15%	$(5,436)	-3%	-119%
Taxable Income	$29,010	15%	$(5,436)	-3%	-119%
Net Gain (Loss)	$29,010	15%	$(5,436)	-3%	-119%

As discussed in the vertical analysis section, the common size ratios analysis of Sunshine Coin Laundry reveals a downward trend of 3% in revenue from 2012 to 2013 due to much needed maintenance and repairs of their equipment. The operating expenses for the year 2013 and 2012 in relation to the revenue sales are comparable, respectively. On the average, businesses that operate in the same industry as Sunshine Coin Laundry's have a common size ratio of 71% of Total Operating Expenses relative to Revenue Sales compared to Sunshine Coin Laundry's 85% and 107% for 2012 and 2013, respectively. Close attention to routine maintenance and repairs schedule is recommended to avoid the unpredictable peaks in operating costs in the future.

Ratios and Trend Analyses – Four-year comparison *(Years ending 2010, 2011, 2012, and 2013)*

LIQUIDITY

What is Sunshine Coin Laundry's ability to meet obligations as they come due?

Sunshine Coin Laundry has adequate liquid assets relative to short-term obligations. This does not necessarily mean that the firm will never have trouble paying its bills, but it indicates that as of the specific Balance Sheet of fiscal year 2010, 2011, 2012, and 2013, the company is in a reasonable position. However, as evident in year 2013, the maintenance cost on the company's aging equipment dampened its growth momentum temporary.

A common rule of thumb is that a "good" current ratio is 2 to 1. The adequacy of a current ratio will depend on the nature of the business and the character of the current assets and current liabilities. There is little uncertainty about the amount of debt that is owed to two key lenders of Sunshine Coin Laundry; Citizens Bank of Florida and Chan Noukeo (previous owner of the business). Sunshine Coin Laundry has taken an approach from the beginning to decrease its long-term liability by not withdrawing an owner's salary, reinvesting the retained earnings back into the business, and paying down debt. These are fundamental steps to accomplishing an improvement in liquidity.

In general, quick ratios between 0.5 and 1 are considered satisfactory, as long as the collection of receivables (revenue) is not expected to slow. Sunshine Coin Laundry's quick ratios for the analyzed financial period are lower for the year 2010, 2011, and 2012, but illustrate good upward trending from 0.16 in 2011 to 0.90 in 2013.

Sunshine Coin laundry illustrates the ability to generate the working capital necessary to sustain its operations. However, as explained previously, in 2013 with the unavoidable maintenance and repairs, the working capital ratio dropped to -1% and cash infusion from its management was necessary.

Financial Indicator	**Period (End of December)**			
	2010	**2011**	**2012**	**2013**
Current Ratio	0.34	0.06	0.12	0.73

Current Ratio = Total Current Assets / Total Current Liabilities

Explanation: The current ratio is a reflection of financial strength. It is the number of times a company's current assets exceed its current liabilities, which is an indication of the solvency of the business.

Financial Indicator	**Period (End of December)**			
	2010	**2011**	**2012**	**2013**
Quick Ratio	0.34	0.16	0.23	0.90

Quick Ratio = (Total Current Assets – Total Inventory) / Total Current Liabilities

Explanation: The quick ratio is also called the "acid test" ratio. That's because the quick ratio looks only at a company's most liquid assets and compares them to current liabilities. The quick ratio tests whether a business can meet its obligations even if adverse conditions occur.

Financial Indicator	**Period (End of December)**			
	2010	**2011**	**2012**	**2013**
Working Capital	-4%	7%	18%	-1%

Working Capital = Current Assets – Current Liabilities

Explanation: This is the capital that finances continuing operations of the company. It is normally used to manufacture, sell, and receive payment for products and services. Working Capital shows the available liquidity resources after current obligations are met.

PROFIT & PROFIT MARGIN

Are profitability trends favorable for Sunshine Coin Laundry?

Profitability ratios measure a company's ability to use its capital or assets to generate profits. Improving profitability is a constant challenge for all small businesses and their management.

The percent rate of return on equity for Sunshine Coin Laundry is 23% in 2012 compared to the baseline of 11% in 2011. However, the percent rate of return on equity for 2013 was -1% compared to the baseline of 2012 of 23%, indicating that the management may not have effectively managed the profit earned. Sunshine Coin Laundry had been postponing equipment replacement and some repairs until 2013 to accelerate the debt payoff. This delay began to negatively affect profitability of the company due to the degrading conditions of some of the most profitable machines.

Sunshine Coin Laundry percent gross profit margins for the last four years since the inception of the business are 94% on the average compared to an average of 91% of others within the industry. <u>This is a good indication of good potential financial health for the company.</u>

<u>The net profit margin is trending upward since the inception of the company in 2010.</u> However, due to a need of equipment purchase and repairs in 2013, an increase in operation cost brought

the margin down. Sunshine Coin Laundry needs to pay close attention to its operating costs to realize its full market potential since its highest net profit margin was 23% in the year 2012 compared to an average margin of 44% of similar businesses in the industry.

Financial Indicator		**Period (End of December)**		
	2010	**2011**	**2012**	**2013**
Return on Equity Ratio (ROE)	- 8%	11%	23%	-1%

Return on Equity (ROE) = net Profit before Taxes / Total Equity

Explanation: This ratio expresses the rate of return on equity capital employed and measures the ability of a company's management to realize an adequate return on the capital invested by the owners in a company. A higher number is preferred for this commonly analyzed ratio.

Financial Indicator		**Period (End of December)**		
	2010	**2011**	**2012**	**2013**
Gross Profit Margin	94%	94%	94%	97%

Gross Profit Margin = Revenue – Cost of Goods Sold / Revenue

Explanation: This measure indicates the gross profit earned on sales and reports how much of each sales dollar is available to cover operating expenses and contribute to profits. Gross margins are important because they are the "levers" to gross profits, which managers use to "fund" operating costs.

Financial Indicator		**Period (End of December)**		
	2010	**2011**	**2012**	**2013**
Net Profit Margin	-16%	7%	16%	-1%

Net Profit Margin = Net Income / Net Sales

Explanation: This measure indicates how much of a company's revenues are kept as net income. One must keep in mind that the net profit margin is not equated to company growth.   As a company grows, its expenses will at time grow with it; perhaps at a greater rate than sales, thus the net profit margin may shrink.

SALES & ASSETS

Are sales growing and satisfactory? Is Sunshine Coin Laundry using fixed assets effectively?

Sunshine Coin Laundry's revenues from 2011 through 2013 as recorded seem to be flat with no significant growth. Sales data of 2010 is omitted since the 2010 data represents only a few months of operation. Higher sales are certainly better than lower sales since the company relies on sales dollars to "fund" additional expenses, especially when the company strategy is to get out of debt and turn the business into a true passive income generator. We recommend additional sales metrics such as Turn per Day (TPD) also known as cycles per day. This metric is a measure of how often each machine is used each day, and dryer income as percentage of washer income data to be collected. Together with other marketing data, a marketing plan is suggested to improve overall sales revenue.

To analyze the company's effectiveness in generating sales from its investment in property and equipment, we calculated the return on asset (ROA) ratios. The calculated ratio increased from 2010 to 2012 indicating the initial high investment in equipment as Sunshine Coin Laundry began its operations, and the sales were low. As sales increased and debt liabilities decreased, the fixed asset turnover ratio rose to 18% in 2012 as Sunshine Coin Laundry's annualized sales that were reinvested in their assets. However, the increase expenditures in equipment replacement and repairs in 2013 forced the ratio down to -1%. We expect Sunshine Coin Laundry to continue to generate sales from their investment in 2013 and for this ratio to grow once again.

Financial Indicator		**Period (End of December)**		
	2010	**2011**	**2012**	**2013**
Return on Assets (ROA)	-4%	7%	18%	-1%

Return on Assets = Net Profit before Taxes / Total Assets

Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how may cents of profit each dollar of asset is producing per year. A higher number reflects a well-managed company with a healthy return on assets. Heavily depreciated assets, a large number of intangible assets, or any unusual income or expense can easily distort this calculation.

BORROWING

Is Sunshine Coin Laundry borrowing profitably?

In this case, the results are in favor of Sunshine Coin Laundry. We calculated the debt-to-equity, cash flow leverage and coverage ratios to analyze the company's credit quality and ability to service its debts with cash flow. The company set a debt management objective of paying the debt as soon as possible to improve its credit quality as evident in the debt-to-equity ratio. In addition, the management continues to service its operation using its assets and revenue generated with them as illustrated with the cash flow leverage and coverage ratios.

Financial Indicator		**Period**	**(End of December)**	
	2010	**2011**	**2012**	**2013**
Debt-to-Equity Ratio	3.45	3.35	2.46	1.79

Debt-to-Equity Ratio = Total Liabilities / Total Equity

Explanation: This Balance Sheet leverage ratio indicates the composition of a company's total capitalization. The total capitalization indicates the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

Financial Indicator	**Period (End of December)**			
	2010	**2011**	**2012**	**2013**
Cash Flow Leverage Ratio	-43.59	31.31	10.61	9.84

Cash Flow Leverage Ratio = Total Liabilities / EBITDA

Explanation: This ratio measures a company's ability to repay debt obligations from operating cash flow (EBITDA)

Financial Indicator	**Period**	**(End of December)**		
	2010	**2011**	**2012**	**2013**
Cash Flow Coverage Ratio	-2.13	1.23	5.21	8.35

Cash Flow Coverage Ratio = EBITDA / Interest Expense

Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality.

SOLVENCY

What is the probability of Sunshine Coin Laundry going bankrupt?

Solvency ratios measure the stability of a company and its ability to repay debt. These ratios are of particular interest to investors or loan officers since solvency ratios give a strong indication of the financial health and viability of the business. We calculated the Springate Z-score to test its viability.

The Z-Score of Sunshine Coin Laundry is in the high rist point value of < 0.862 for the years 2010 and 2011, but then shows higher values of 0.79 and 1.17 for the year 2012 and 2013, respectively. Most importantly, Sunshine Coin Laundry Z-Score is trending upward since its inception in 2010. <u>This positive trend indicates the business model and management philosophy</u>

of Sunshine Coin Laundry are working quite well, and the company is stable from an investor's point of view.

Financial Indicator	Period (End of December)			
	2010	**2011**	**2012**	**2013**
Springate Z-Score	0.14	0.48	0.79	1.17

$$Z = 1.03A + 3.07B + 0.66C + 0.4D$$

Where: *A = Working Capital / Total Assets*
B = Net Profit before Interest and Taxes / Total Assets
C = Net Profit before Taxes / Current Liabilities
D = Sales / Total Assets

Explanation: Gordon L. V. Springate, following procedures developed by Altman, developed the Springate Z-Score model. Springate used a step-wise multiple discriminate analysis to select four out of 19 popular financial ratios that best distinguished between sound business and those that actually failed. The Springate model achieved an accuracy rate of 92.5% with the following meaning: if score is below 0.862 means that the possibility of a company's bankruptcy is high, so the company is considered unstable and dangerous.

Summary of Findings:

Sunshine Coin Laundry's financial analysis indicates a typical business startup environment, where cash is used to finance the operation. The company utilized an aggressive debt-payoff plan in the first 42 months of operation, eliminating more than $210,000 of debt. For this reason, however repairs and replacement of the firm's most profitable machines were delayed, which slightly affected sales revenues in 2013 as well as utility costs. Although several machines were replaced and repaired in 2013, Sunshine Coin Laundry is in dire need to replace its outdated water heating systems, five washers, customer folding tables and carts, in addition to upgrading eight of its driers to provide more efficient and reliable service. The MEBA Grant would serve to offset these replacement, repair and improvement costs.

Recommendations

After a thorough review of the applicant's financial statements, business plan and other supporting documents, plus an on-site visit, it appears that Sunshine Coin Laundry's proposed utilization of MEBA Program funds for upgrading and replacing key equipment are in-line with the purpose of the MEBA Guidelines. In addition, the company's management strength and financial position and outlook are positive assets to the successful intended utilization of the MEBA Program, which was designed to attract and retain minority-owned businesses that offer retail and service options to the residents of the Downtown Community Redevelopment Area of the City of Orlando.

In addition, the following recommendations are made for enhancing the firm's growth and overall profitability potential:

- Sunshine Coin Laundry will benefit from implementing a stable maintenance, repair and replacement program to avoid peaks and valleys in cash flow, and maintain a more financially stable position.
- The firm's target customer will continue to change with the growth of the trade area and the incorporation of additional 1,500 rental housing units at the Creative Village, which will be located directly across the street from the store. To capture this market, the firm will need to invest in improving its façade and store-front appeal, landscape as well as its internal environment, décor, amenities and services.
- Additional customer services will create further convenience and comfort for its client-base, allowing Sunshine Coin Laundry to differentiate itself further from any local competitor, and providing its customers with a positive laundry experience. This includes, but is not limited to:
  - Children's area (if client-base is already bringing children)
  - Wi-Fi service
  - Additional snack vending options
  - Wash, dry and fold service
  - Pick-up and delivery service – for Creative Village clients
- The firm will also benefit from improving its branding through corporate image consulting, a marketing plan for reaching and retaining new customers (originating from the Parramore trading area and the Creative Village as well), design of a corporate logo, and new more attractive store-front signage.
- Internet and Social Media strategies can be helpful in growing a clientbase, building credibility/reputation, top-of-mind awareness, loyalty and a level of sophistication that will appeal to new residents of the Creative Village and a percentage of existing customers. A basic, inexpensive website and/or Facebook page can be designed for free or at a very low cost and can begin to build the brand, relationships and eventually open the

door for franchising options if Sunshine Coin Laundry so chooses. An example of this type of social media utilization in the laundromat industry can be found here: https://www.facebook.com/SudsLaundromat

Other Key Points and Photos:

- Utility costs for laundromats vary typically between 15% - 25% of gross monthly income. However, older equipment can push utility bills beyond 30% of monthly gross income, cutting into profitability.
- All replacements and improvements proposed by Sunshine Coin Laundry are for existing aged and non-functional equipment.


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Coke


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SOFTENERS
LAUNDRY BAGS
Tide
Tide
Bounce