

How a Careful Buyer or Seller Evaluates the Worth of a Route by Frank 'the Crank' Seninsky, President Amusement Entertainment Management and Alpha-Omega Amusements

EAST BRUNSWICK, NJ -- If you're going to buy or sell an amusement and/or vending route business, the first step is to know what the business is really worth. That's easy to say, but hard to communicate with solid numbers! At least, it's hard to zero in on the value of a route in the highly professional terms that a good banker and savvy buyer would use without well-defined process.

A large majority of routes don't get sold because the negotiating process falls apart when buyer and seller are both shooting from the hip. Formulas such as "the route is worth two times the wood" or "three times cash flow" can be heard echoing off the walls at trade shows. Very few buyers or sellers in our industry have a professional evaluation performed, but you're in a much better position if you do -- for a whole host of reasons that are discussed at the end of this column. Most importantly, a seller can very often get more money for his business when a strong case can be shown to potential buyers as to exactly how the business was evaluated.

In my 32 years of operating game routes -- and after performing many business evaluations -- I am confident that the most accurate method of evaluating a route is a carefully weighted combination of three different and separate types of evaluations: **(1) Market Value:** the price that the business would sell for in an open market as a going concern; **(2) Orderly Asset Liquidation Value**--the value of the business's assets, less debt (multiplied by a developed factor ranging from 1.00 to 3.00), if sold through normal distribution channels over a period of six to 12 months with the daily operation of assets to cease as needed to support sales transactions; and **(3) Bulk Liquidation Value**--the value of the business's assets, less debt (multiplied by the same developed factor ranging from 1.00 to 3.00), if sold under a distress condition in bulk to the highest bidder(s) in a time period not to exceed 90 days with the daily operation of assets to cease.

Combining these different perspectives may sound strange at first, but it actually makes sense. After all, if you're buying a route, you may decide: "I am only going to operate the profitable accounts, so it's only fair to pay for a certain percentage of the total route in terms of its market value; a certain number of the route's accounts are losing money, and I'm going to have to liquidate them" -- either with a bulk or orderly liquidation sale.

Let's address these three methods in turn.

A.) The first step to perform is the "orderly asset liquidation evaluation." Create a listing of all assets including vehicles, office equipment, parts, and each machine by category with the current "as-is, complete" market value for each unit. Categories include music, videos (uprights dedicated, kited units, and simulators -- also note "red" label rated games), countertops, pool, darts, pinball, redemption, merchandise dispensing, kiddie rides, gaming, novelty, bill changers, etc. Vending routes would include cigarettes, soda, snacks, candy, coffee, ice cream, etc. All units must be complete and fully operational in good cosmetic condition, as a short-term 30 day limited warranty would be provided. The value of any units not meeting these criteria would be reduced accordingly.

Location Profit Builders

- **Decrease asset investment**
- **Increase operator commissions**
- **Establish weekly minimums**

The likely machine sale price must be one that is actually achievable in the current market under current conditions. We will also assume that units would be sold to multiple buyers in various markets; that they would be advertised as working and complete; and that the sale would take place over a six to 12 month period, depending on number and value of units. A devaluation factor is calculated to balance out the price differentials that would occur over the liquidation period.

Add up all of the machines. This number will then be multiplied by a benchmark number that will be determined during the "market value" evaluation process. Add the other asset values in for vehicles, office equipment and other non-machine assets. Subtract any officer loans and projected devaluation amount during sale term.

B.) The second method to perform is the "bulk liquidation of all assets." This answers the question: what would the business's assets be worth if you hired a broker to sell off the assets in "as is" condition during a 90-day period to the

general public, with terms requiring immediate cash payment? No warranties would be provided to the buyers. A buyer's premium and/or seller's premium would be incorporated, depending on the type of deal that would be best utilized in the region. Keep in mind that the final figure will be influenced by what time of year any hypothetical sale takes place, since equipment moves faster in some seasons than others.

Add up the total net sales amount of the machines. This number will then be multiplied by a benchmark number that will be determined during the "market value" evaluation process. Add the other asset values in for vehicles, office equipment, and other non-machine assets. Subtract any officer loans and projected devaluation amount during sale term.

C.) Market value as a going concern is the most difficult number to determine and requires a fair amount of analysis. You want to look at each location from at least two additional perspectives: investment return and cash flow.

Put together a listing of each location account along with the names of each machine and the current market values for each machine. The current market value is a snapshot picture of the value today and will be different from the values obtained in the orderly liquidation method evaluation.

The "investment return" analysis tracks each location's weekly net revenues to the operator against the asset value of the machines and related equipment in that location. I have named this ratio the "rubber band ratio" and benchmarked it at 2.5% when the commission rate is 50% to the operator. This procedure gives one perspective of evaluating how each location compares to the total overall operation. The locations that are under performing will clearly stick out.

A group of locations can become more profitable by such actions as decreasing the asset investment, increasing the operator commission, and/or putting in place or increasing weekly minimums. Each location is also ranked as a percentage of total net revenue. It is very helpful to shade in the top 10 locations and note what percentage of total net revenues they make up. This is compared to the number of locations that it takes to generate 20% of the total net revenues.

A "cash flow analysis" is the second perspective to rank each location upon. The process involves determining the average annual cost to operate each unit of equipment on the route. You need create another unique benchmarking system for the company being evaluated, considering such items as number of average service hours for collection, repair, and promotion (league costs for example) based on the different hourly rates, distance per service call, travel time to and from each location, mileage costs and cost to operate the different vehicle types, trucking expenses for each piece of equipment (this varies with frequency of rotation, of course), reconditioning time and materials cost, parts investment as a percentage of market value, general overhead expenses to run the business (broken down as a percentage of market value), administration and accounting costs (hourly rate times number of hours spent on this), licensing, depreciation, and debt service.

When the monthly operating costs are compared against the monthly net revenues, the result shows which accounts are producing positive cash flow and which are draining cash from the operation. Comparing this chart with the Investment Return Chart will clearly show any accounts that are not in balance. Some accounts may have too many machines and/or too high of an asset investment. The travel distance and time to service each account is also a major factor that can change an account's position on the chart.

When multiple locations are under common ownership (such as a restaurant chain), it is understood in most cases that an operator must supply all the locations in an area, taking the good with the bad. These are analyzed separately as to long-term profitability and the possibility that all of these locations could be deleted at the same time if the master agreement is not renewed.