

Chapter 8: Finance, Insurance and Real Estate Related Businesses

This division includes establishments operating primarily in the fields of finance, insurance, and real estate. Finance includes depository institutions, non-depository credit institutions, holding (but not predominantly operating) companies, other investment companies, brokers and dealers in securities and commodity contracts, and security and commodity exchanges. Insurance covers carriers of all types of insurance, and insurance agents and brokers. Real estate includes owners, lessors, lessees, buyers, sellers, agents, and developers of real estate.

Check Cashing Services

SIC: 6099 NAICS: 522390

Establishments primarily engaged in performing functions related to depository banking, namely check cashing services, on a fee basis.

Description of Business

The check cashing industry proliferated during the early 1990s, when new loan and financial services were high in demand. As such, the industry is reaching a saturation point, where ample establishments absorb the business at more competitive rates. The primary method of obtaining revenues is on a flat fee basis, per transaction.

General Industry Information

Typical customers of check cashing services are full time employees but are unaffiliated with a bank or credit union. In exchange for the risk of a defaulted or bad check, the customer pays a fee, which is often a premium rate for personal checks. The most preferred type of checks with the lowest default risks are traditionally payroll and government issued checks.

Other services provided by these businesses include short-term consumer loans, money orders, money wiring services, and bill payment. Such operators need to be registered with the U.S. Department of the Treasury as a money services business. Requirements for recording and documenting transactions exist. Companies that implement sound accounting and inventory systems are better situated to meet these requirements.

There exists profound competition amongst check cashing services, which includes automatic check cashing machines and online retail financial services

provided by direct competitors. Nevertheless, many operators are carving a market share by diversifying the financial services provided to customers.

Employee training is often a significant expense for this business. Complex security systems, accounting software, and customer relations are vital to establish internal controls. Employees need to be able to clearly convey requirements and fees to customers and detect fraudulent activity.

This industry has come under scrutiny from various consumer rights groups, who aim to reduce the fees charged by this industry. Legislation and regulation may affect this business at local, state, and national levels.

Financial Performance Ratios

Table 8-1: Check Cashing Services

Margins	
Cost of Goods (% of revenue)	20-40%
Operating Expenses (% of revenue)	80-90%
EBITDA/Operating Margin (% of revenue)	10-20%
Ratios	
Working Capital (% of revenue)	6-15%
Current Ratio	1.0-2.0
Quick Ratio	0.50-1.50
Debt/Total Capital Ratio	10-15%
Profit & Growth	
Prior Years' Annual Growth (% of revenue)	10-15%



Business Valuation Formulas

70-85% of annual revenues



Equipment Valuation and Real Estate Rental Formulas

Equipment

OLV of equipment ranges from 10-20%, depending upon age and quality of equipment.

Real Estate

Rent as a % of Sales: should be less than 2%. The typical lease is a triple net expense lease. Better locations have triple net expense leases, while secondary locations have gross expense leases. The typical space occupied ranges from 300-2,000 sq ft, with a median of 1,200 sq ft.



Financing

Financing has become less common amongst these types of transactions. Generally, terms have been reduced to a standard of three years, and typically 50% down.



Red Flags and Risks

This business is particularly vulnerable to acts of theft. Large amounts of cash are required for basic operations, and so the security systems are an integral part of worker safety and theft deterrence. Buyers should consider investing in nec-