



Business Services Research

June 15, 2020

Robert W. Baird & Co. 2Q 2020 Textile Rental Services Survey

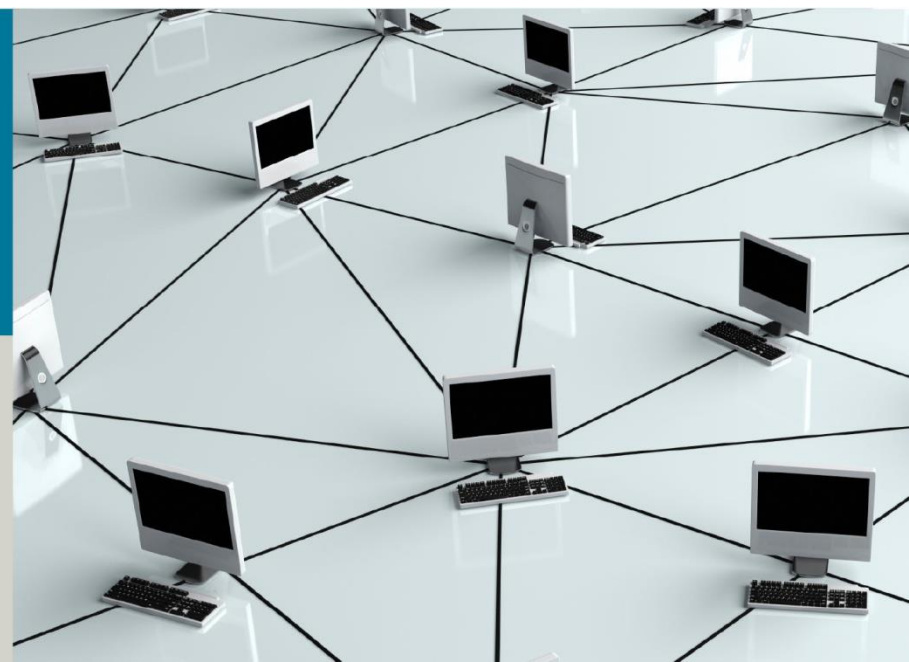
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**Please refer to Appendix – Important Disclosures and
Analyst Certification on pages 19-21**



Overview



- Thank you to the ~275 professionals who received copies of our survey!
- Please take the 60 seconds next quarter to respond to the survey request!
- If you have any questions or comments, please email:
Senior Analyst Andrew Wittmann (awittmann@rwbaird.com)
Senior Research Associate Justin Hauke (jhauke@rwbaird.com)

IMPORTANT: WE HIGHLY RESPECT SURVEY RESPONDENT ANONYMITY

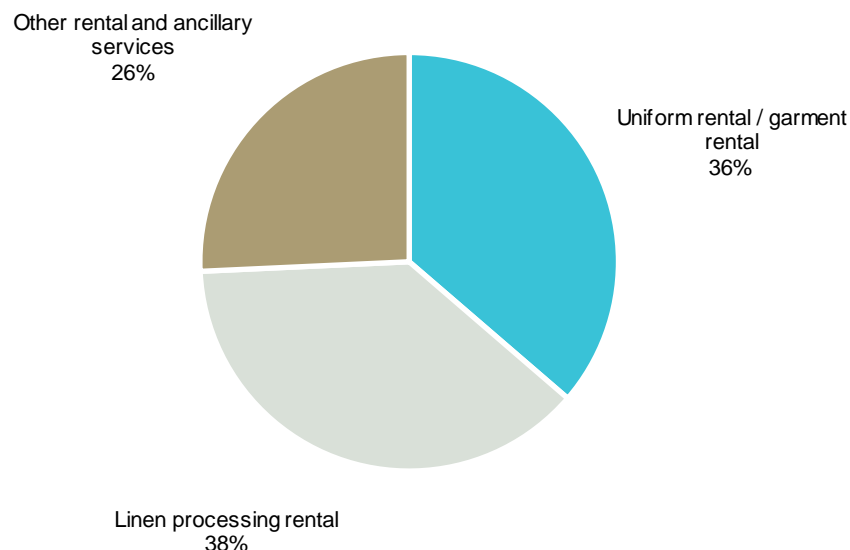
All responses are presented in aggregate form

We never share or discuss individual responses

Survey Participants

- The participants in the Baird textile rental services survey are senior executives at uniform and/or linen rental firms
- Respondents are evenly distributed across the United States, with some operations in Canada and other international locations
- Total response pool consisted of ~275 independent firms (*27 responses*)

Survey Respondent Prolife: Revenue by Service Line (%)



Source: Baird Research

UNIFORM RENTAL TRENDS

Executive Summary: Uniform Rental

UNIFORM RENTAL SURVEY SUMMARY

- **Our 2Q20 survey saw deterioration across all metrics, particularly on add/stops, with 70% of respondents citing revenue trends falling short of expectations for the quarter.** New customer interest also collapsed, though pricing has held stable (a positive), though likely reflects lack of new RFPs. Positively, FTM growth expectations still positive; we believe this reflects optimism that 2Q20's COVID "shock" sees a more V-shaped recovery. Key details:

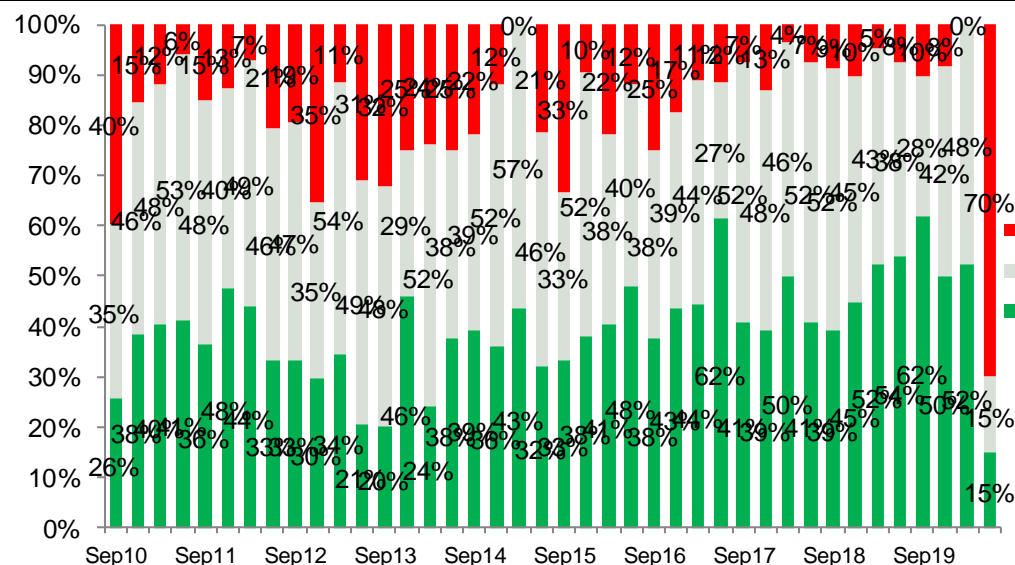
2Q20 UNIFORM RENTAL SURVEY HIGHLIGHTS

- **Rental Revenue Trends.** 70% of respondents fell short of internal revenue projections for the quarter with 15% meeting target. 15% also exceeded plan.
- **Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) fell to 15.8, its first negative (i.e., <50) reading since September 2016 and the lowest absolute level since March 2009 (when it was just 8.8).
- **Pricing.** Base pricing gains increased ~1% and our diffusion index held mostly stable at 47.4 (this metric is consistently sub-50, in the 40-50 range).
- **No-Programmers.** Our no-programmer diffusion index fell to 36.8, from 56.5 last quarter. Like Add/Stops, this was the first negative print since 2016 and the lowest absolute print since September 2009.
- **Growth Outlook.** Our 4Q19 survey saw the year's growth outlook at +5.1%, the strongest starting forecast for a year since 2011. Today, respondents see +1.4% growth over the next 12-months. Open response comments suggest outlook dependent upon economic re-openings and customer viability.

Uniform Rental: Revenue Trends Versus Expectations

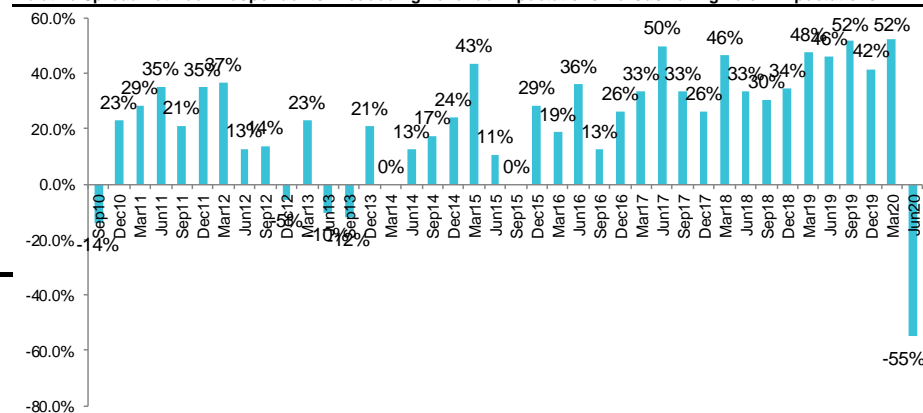
- Rental Revenue Trends.** 70% of respondents fell short of internal revenue projections for the quarter with 15% meeting target. 15% also exceeded plan (see chart at bottom).

“Which of the following best describes your rental revenue trend during the past 90 days?”



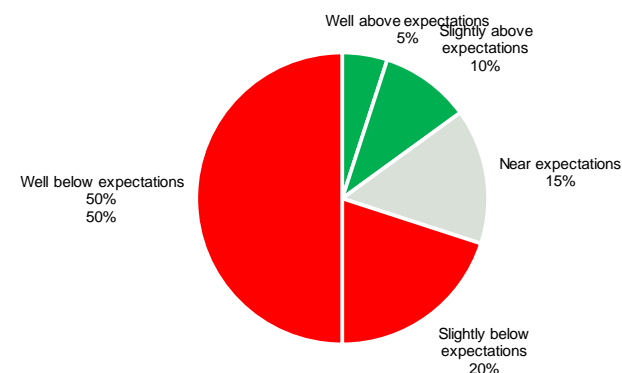
Source: Baird Research

Relative Spread Between Respondents Exceeding Revenue Expectations Versus Falling Below Expectations



Source: Baird Research

Which of the following best describes your rental revenue trend during the past 90 days?

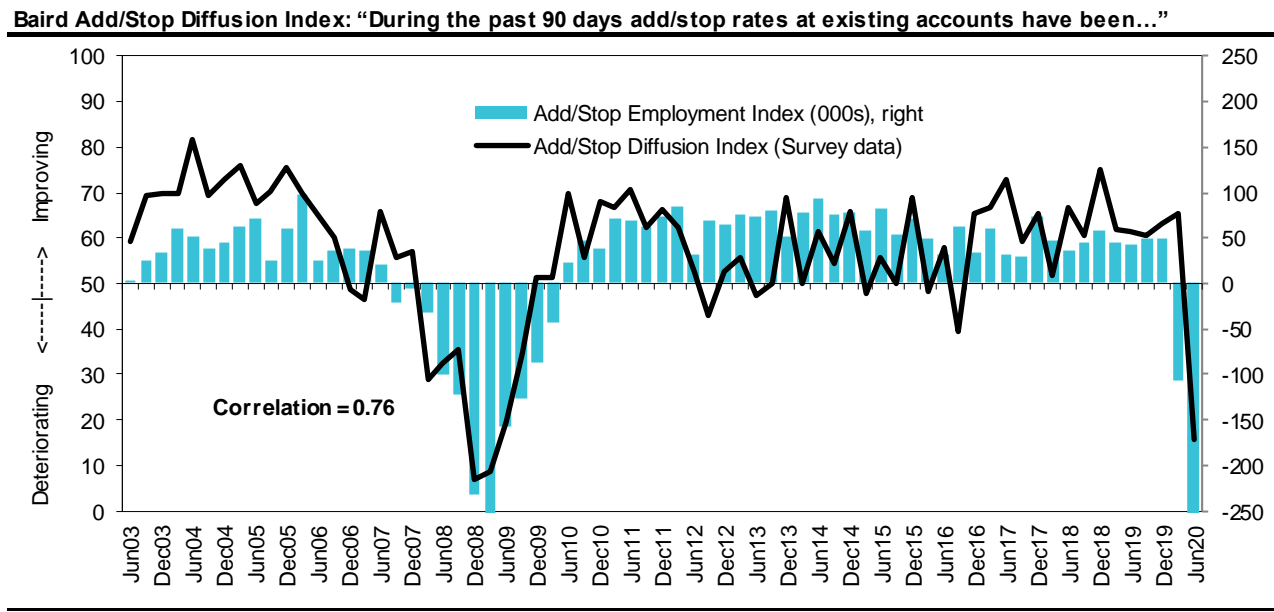


Source: Baird Research

Uniform Rental: Add/Stop Trends

- **Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) fell to 15.8, its first negative (i.e., <50) reading since September 2016 and the lowest absolute level since March 2009 (when it was just 8.8).

Note: A diffusion index represents a normalized index (to 50=neutral) that is based on the percentage of respondents citing improvement (100) versus deterioration (0), with 50 representing a "base" level (equal number of positive/negative responses)

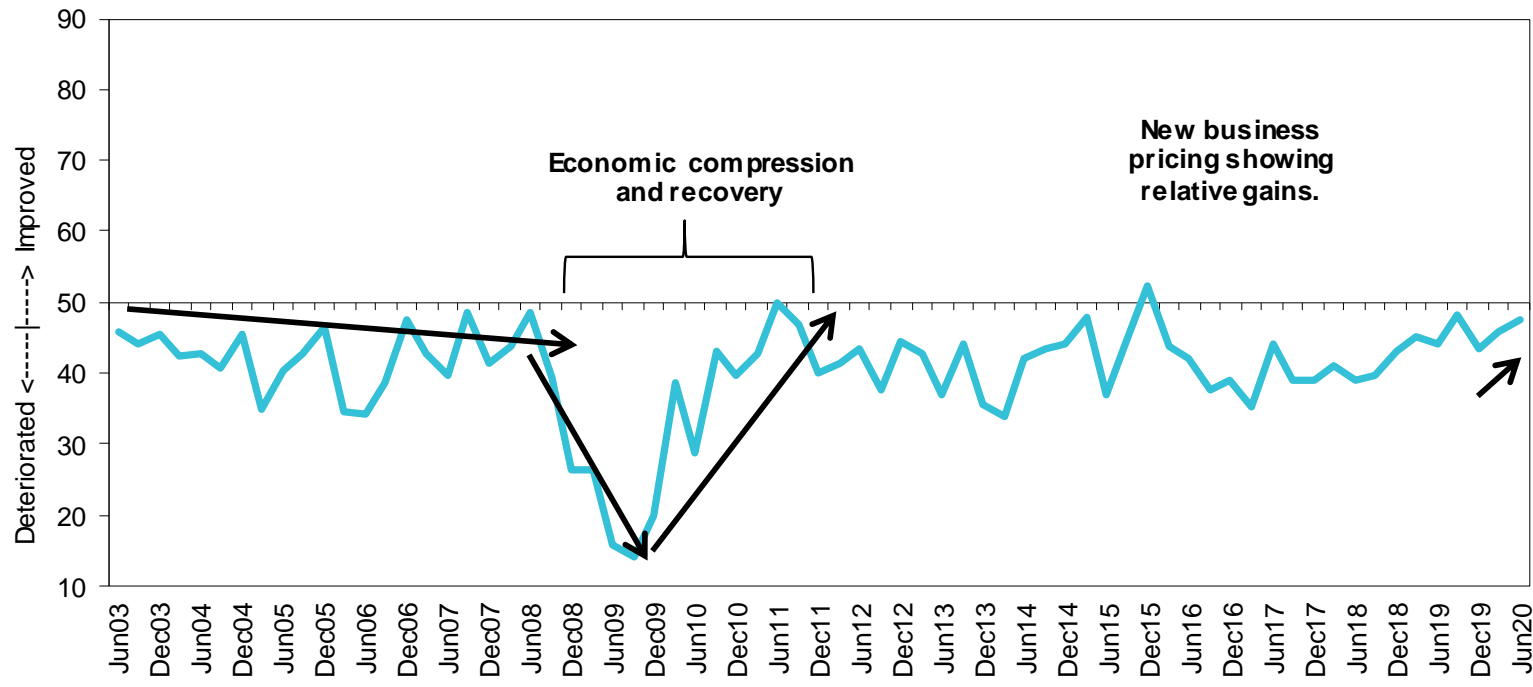


Source: Bureau of Labor Statistics and Baird Research

Uniform Rental: New Account Pricing Trends

- **New Account Pricing.** Our diffusion index for new business pricing held mostly stable at 47.4 (this metric is consistently sub-50, in the 40-50 range). This likely reflects fewer new business RFPs during the quarter, however.

Baird Price Diffusion Index: "During the past 90 days the base price quoted for new accounts has..."

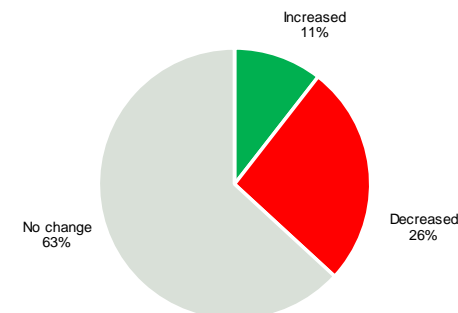


Source: Baird Research

Uniform Rental: Existing Account Pricing Trends

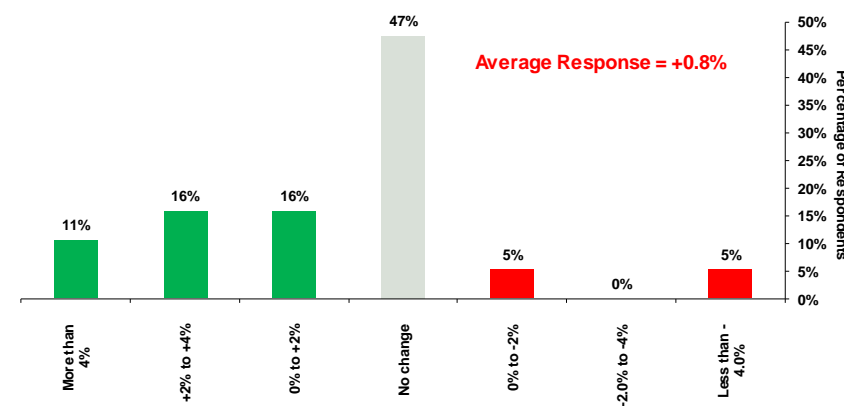
- **Base (Existing) Account Pricing.** Base pricing gains moved lower and are now running around ~1%. Importantly, pricing gains remain positive (so far).

During the past 90 days, pricing on existing rental accounts has:



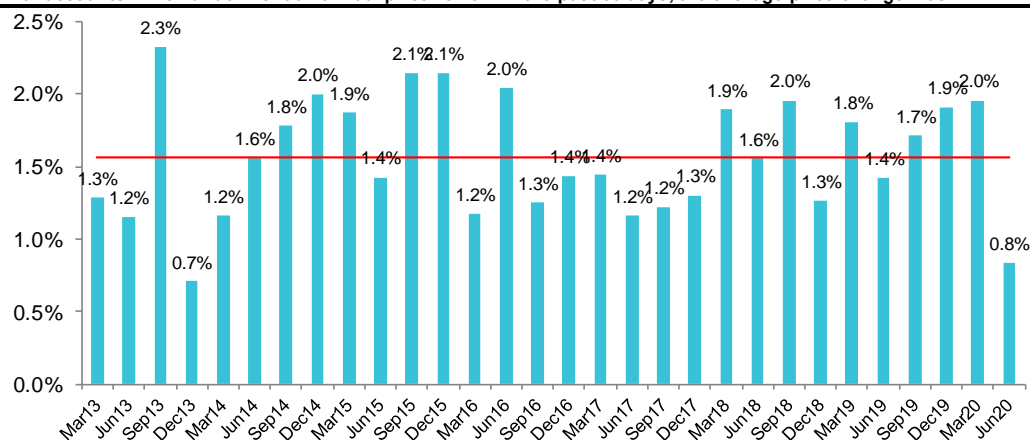
Source: Baird Research

For existing accounts which underwent an annual price review this quarter, the average price change was:



Source: Baird Research

“For accounts which underwent an annual price review in the past 90 days, the average price change was...”



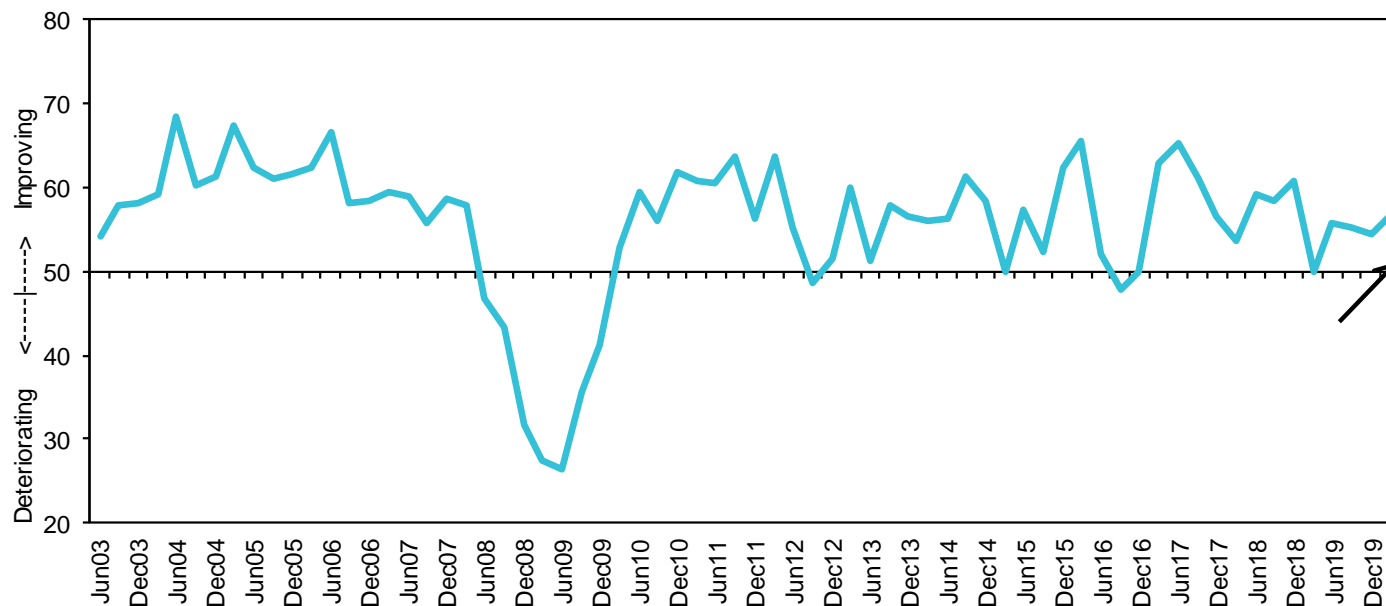
Note: Growth rates reflect average responses of survey participants; Red line indicates sample average

Source: Baird Research

Uniform Rental: New Business (No-Programmers) Trends

- **No-Programmers.** Our no-programmer diffusion index improved to 56.5 (54.3 last quarter), solidly positive. We note that this metric has been consistently in positive territory since briefly dipping negative in 2015-2016.

Baird No-Programmer Diffusion Index: "During the past 90 days interest from no-programmer accounts has been..."

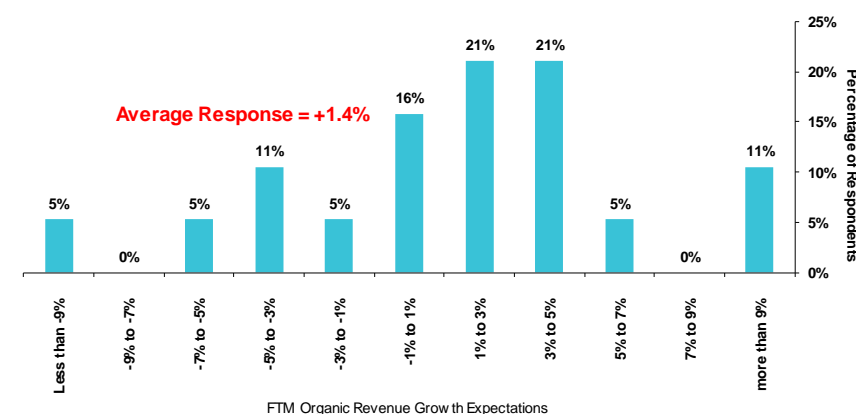


Source: Baird Research

Uniform Rental: 12-Month Growth Outlook

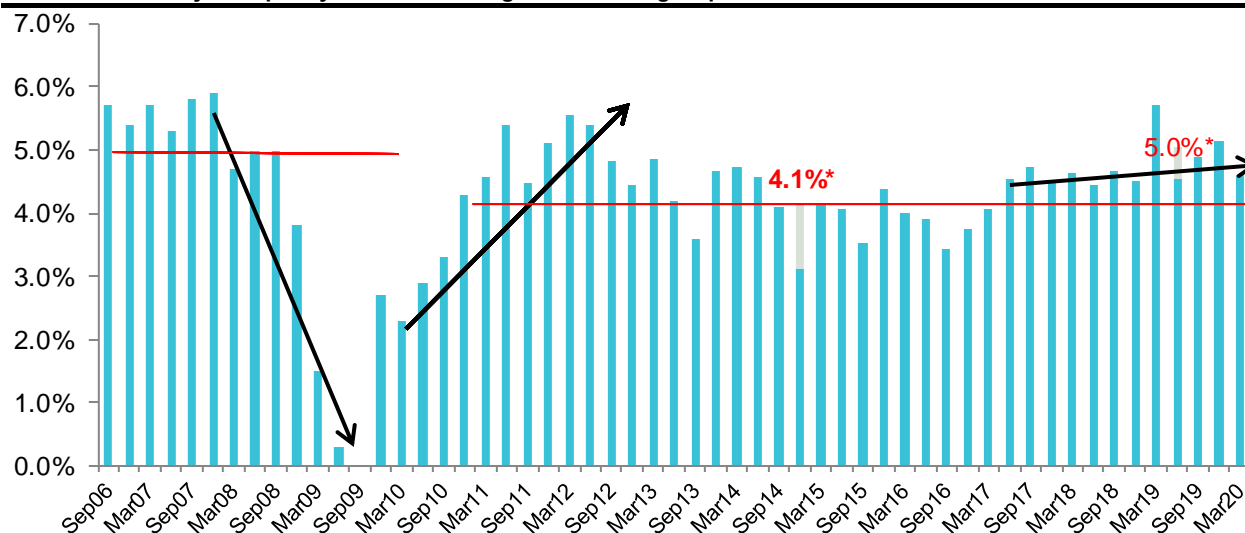
- Growth Outlook.** Our 4Q19 survey saw the year's growth outlook at +5.1%, the strongest starting forecast for a year since 2011. Today, respondents see +1.4% growth over the next 12-months. Open response comments suggest outlook dependent upon economic re-openings and customer viability. See charts.

Organic Rental Growth Expectations (FTM)



Source: Baird Research

"At what rate do you expect your revenue to grow excluding acquisitions in the next 12 months?"



Note: Growth rates reflect average responses of survey participants; *4Q14/2Q19 adjusts for "outlier" response rates

Source: Baird Research

LINEN RENTAL TRENDS

Executive Summary: Linen Rental

LINEN RENTAL SURVEY SUMMARY

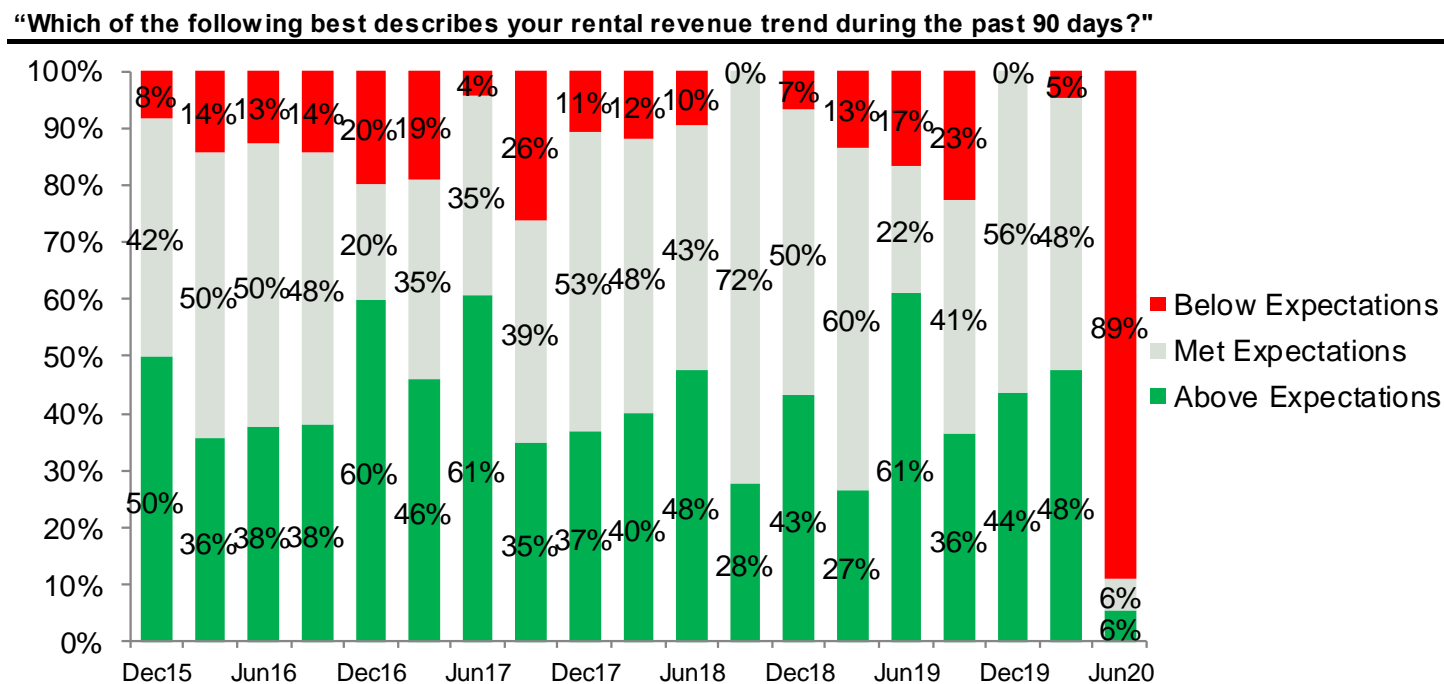
- **Linen rental business trends were, unsurprisingly, more negatively impacted than uniform rental.** This likely reflects greater impact from COVID-related shutdowns in the hotel, restaurant, and healthcare (elective surgery deferrals/etc.) markets. All metrics significantly negatively impacted QOQ with ~40% of respondents expecting FTM revenue to fall >10%. Approximately 90% of respondents reported 2Q20 revenue trends “well below expectations.”

2Q20 LINEN RENTAL SURVEY HIGHLIGHTS

- **Rental Revenue Trends.** 89% of respondents cited rental revenue trends falling well below expectations in 2Q20 with 6% citing revenue near expectation. An additional 6% saw revenue actually exceed expectations (though we assume these were fairly low).
- **New Account Pricing.** 17% of respondents cited more aggressive new account pricing in 2Q20 while 22% saw less aggressive pricing. The balance (61%) saw no change. As a result, our diffusion index actually pushed into positive territory at 52.8. Presumably, new accounts came with more cost to serve (e.g., PPE) needs, where applicable.
- **Base Account Pricing.** The average price increase on existing accounts undergoing price review in 2Q20 was +0.5%, dipping lower from last quarter’s +1.74%. Overall, 33% of respondents cited price increases with 50% reporting no material change. Only 17% saw contraction.
- **No-Programmers.** No-programmer interest showed QOQ deterioration and turned negative (36.1) for the first time since we began tracking this industry category in 2015.
- **Growth Outlook.** Forecasted 12-month revenue is expected to decline 4.2% on average over the next 12 months though ~40% of respondents cited revenue decline expectations of >10%.

Linen Rental: Revenue Trends Versus Expectations

- **Rental Revenue Trends.** 89% of respondents cited rental revenue trends falling well below expectations in 2Q20 with 6% citing revenue near expectation. An additional 6% saw revenue actually exceed expectations (though we assume these were fairly low).

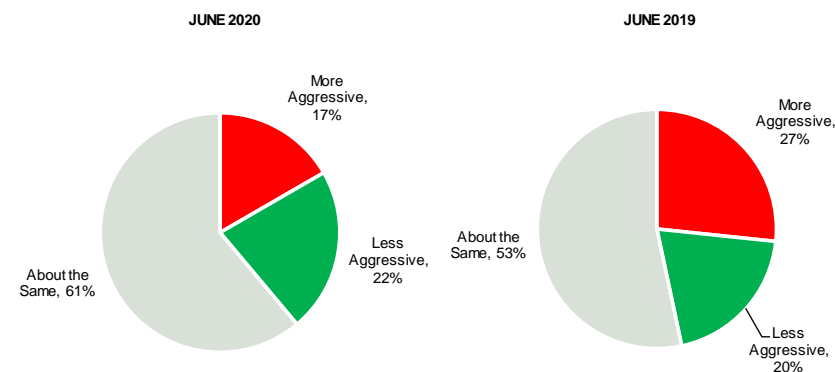


Source: Baird Research

Linen Rental: New Account Pricing Trends

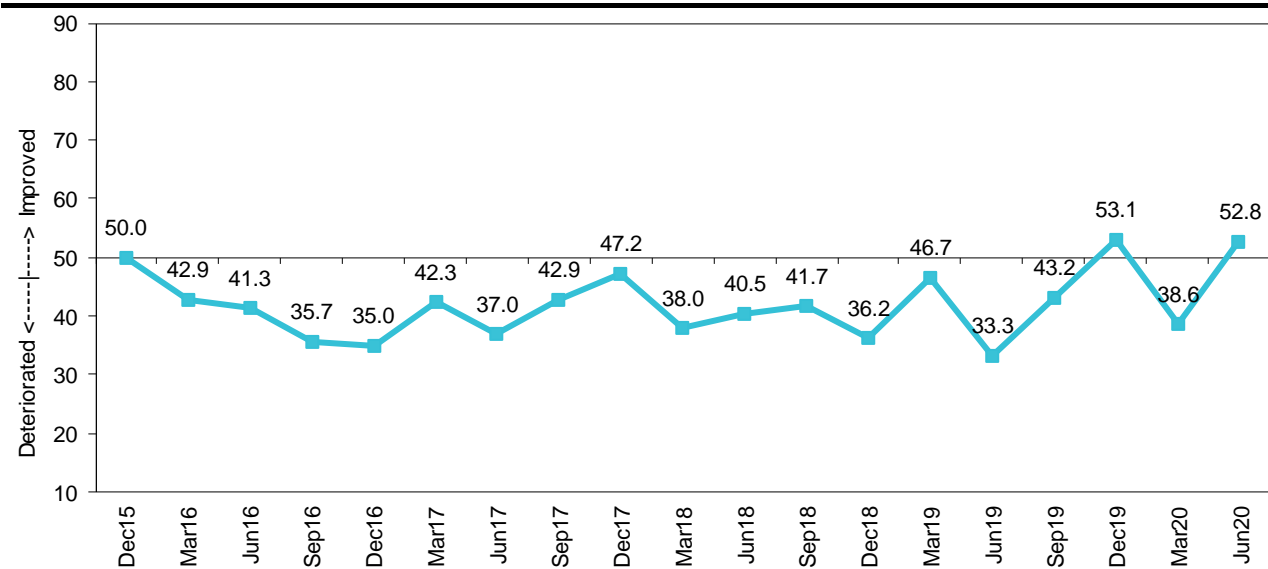
- New Account Pricing.** 17% of respondents cited more aggressive new account pricing in 2Q20 while 22% saw less aggressive pricing. The balance (61%) saw no change. As a result, our diffusion index actually pushed into positive territory at 52.8. Presumably, new accounts came with more cost to serve (e.g., PPE) needs, where applicable. See charts.

During the past 90 days the base price quoted for new accounts generally has become:



Source: Baird Research

Baird Linen Rental Price Diffusion Index

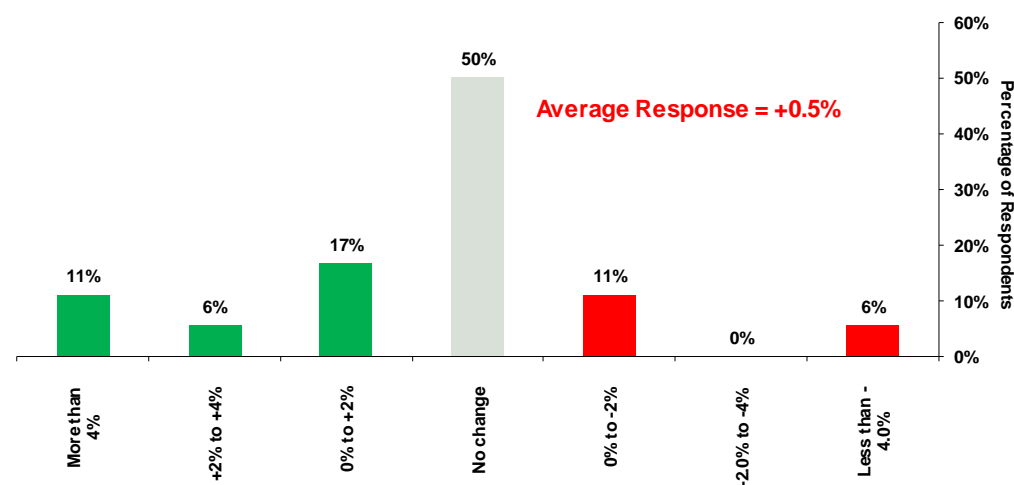


Source: Baird Research

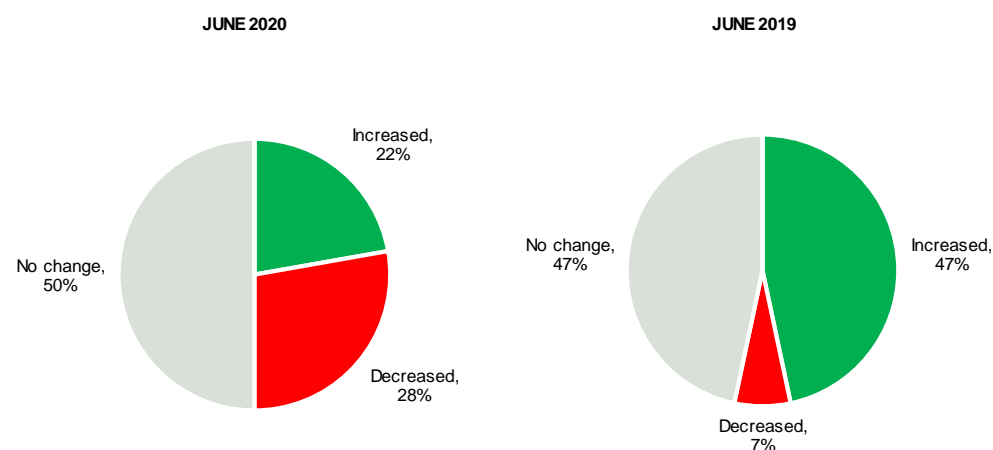
Linen Rental: Existing Account Pricing Trends

- **Base Account Pricing.** The average price increase on existing accounts undergoing price review in 2Q20 was +0.5%, dipping lower from last quarter's +1.74%. Overall, 33% of respondents cited price increases with 50% reporting no material change. Only 17% saw contraction.

For existing accounts which underwent an annual price review this quarter, the average price change was:



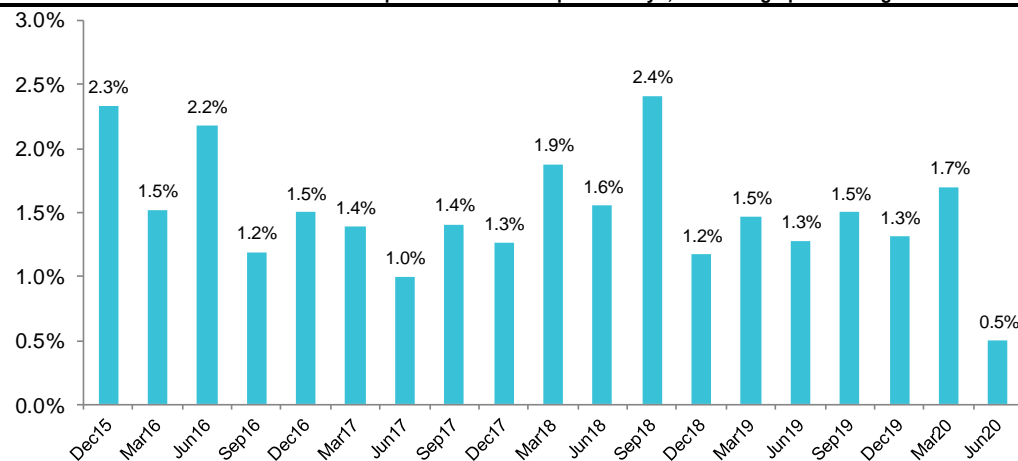
During the past 90 days, pricing on existing rental accounts has:



Source: Baird Research

Source: Baird Research

"For accounts which underwent an annual price review in the past 90 days, the average price change was..."

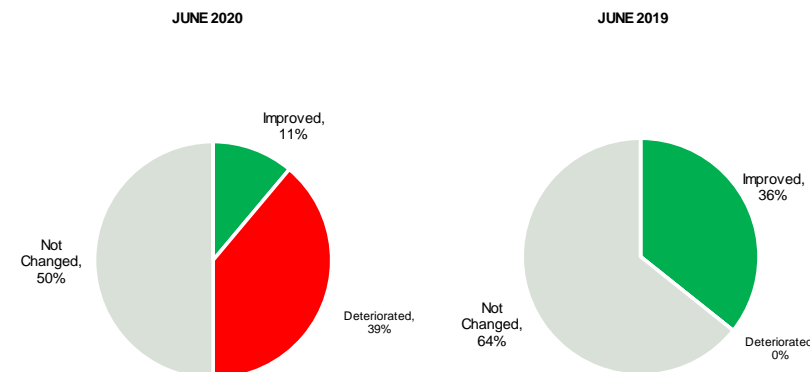


Source: Baird Research

Linen Rental: New Business (No-Programmers) Trends

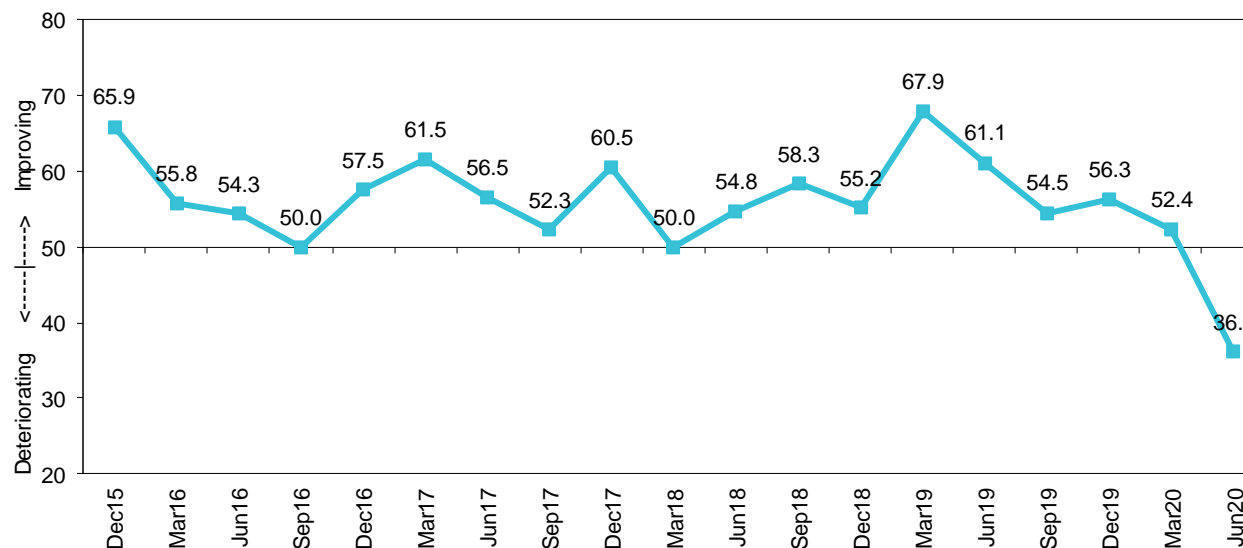
- **No-Programmers.** No-programmer interest showed QOQ deterioration and turned negative (36.1) for the first time since we began tracking this industry category in 2015. See charts.

During the past 90 days interest from no-programmer accounts (those without an existing contract) has:



Source: Baird Research

Baird Linen Rental No-Programmer Diffusion Index

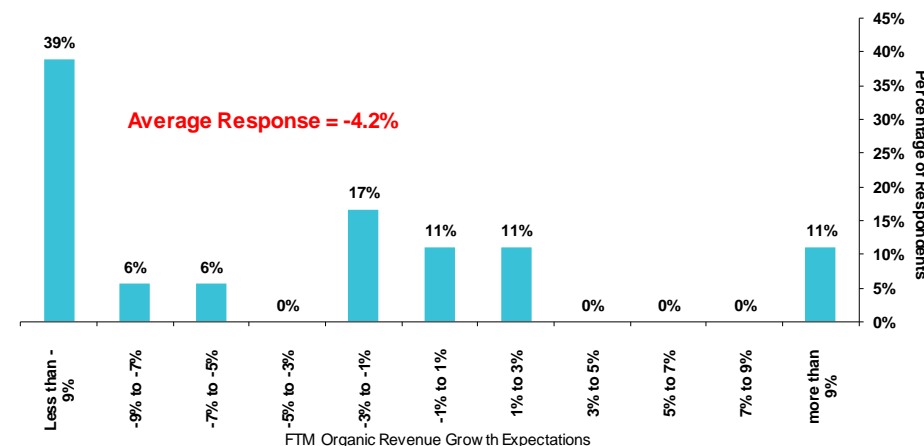


Source: Baird Research

Linen Rental: 12-Month Growth Outlook

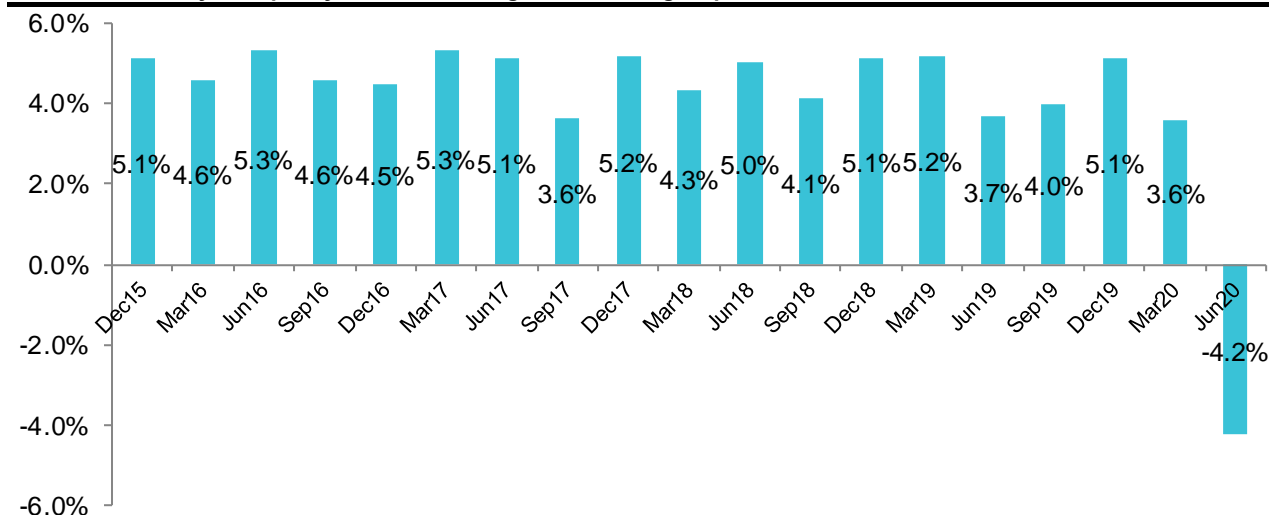
- Growth Outlook.** Forecasted 12-month revenue is expected to decline 4.2% on average over the next 12 months though ~40% of respondents cited revenue decline expectations of >10%. See charts.

Organic Rental Growth Expectations (FTM)



Source: Baird Research

"At what rate do you expect your revenue to grow excluding acquisitions in the next 12 months?"



Source: Baird Research

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Appendix – Important Disclosures and Analyst Certification



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