



Business Services Research

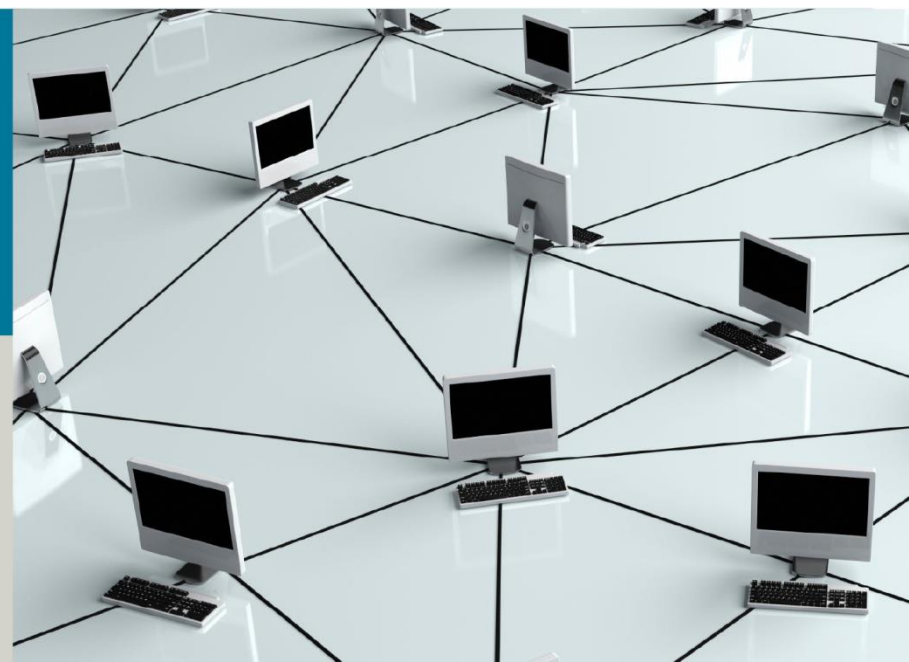
December 15, 2020

Robert W. Baird & Co. 4Q 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 ~260 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

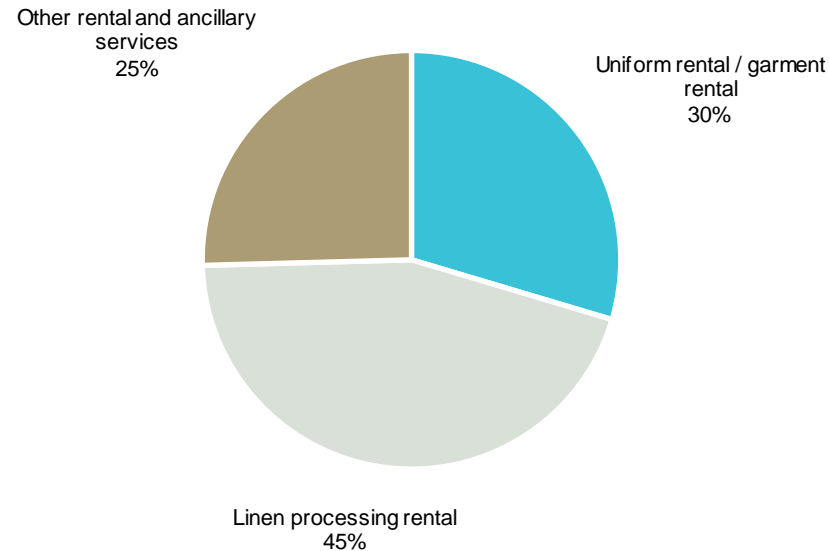
All responses are presented in aggregate form

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 ~250 independent firms (24 responses)

Survey Respondent Prolife: Revenue by Service Line (%)



Source: Baird Research

UNIFORM RENTAL TRENDS

Executive Summary: Uniform Rental

UNIFORM RENTAL SURVEY SUMMARY

- **Our 4Q20 survey saw broad-based decline from the sharp rebound of 3Q20, generally matching recent macro data, but perhaps a bit more negative than the consensus expectations.** All metrics deteriorated QOQ and the number of respondents missing quarterly revenue expectations hit an all-time (14-year) high. Renewed lockdowns are hurting. Key details:

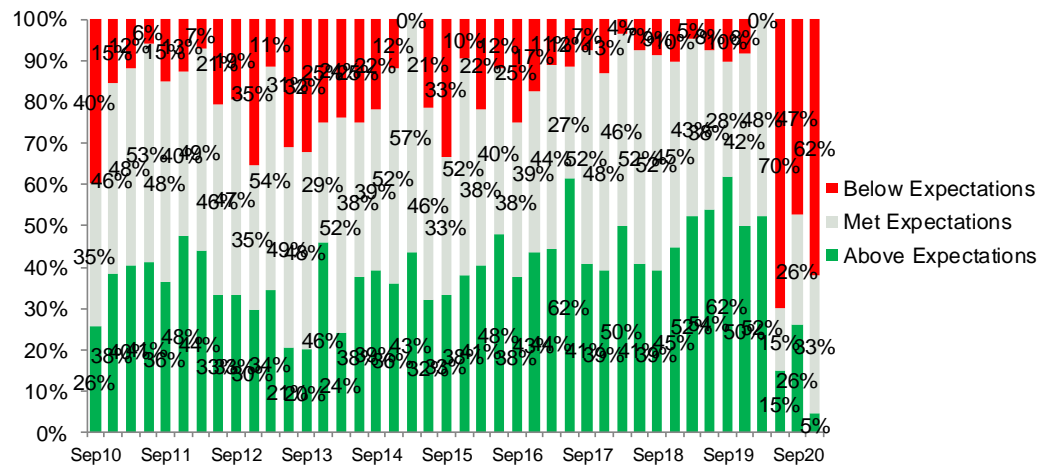
4Q20 UNIFORM RENTAL SURVEY HIGHLIGHTS

- **Rental Revenue Trends.** 62% of respondents fell short of internal revenue projections for the quarter, a near record, with the relative spread between exceeding/falling short hitting a 14-year record (only 5% exceeded expectations).
- **Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) fell to 40.5 in September, retesting historical lows (excluding 2Q20's "shock") and down from the share rebound to "neutral" in 2Q20 (47.5). Generally matches employment trends too.
- **Pricing.** New business trends remain negative but overall pricing gains (base contracts) still positive and our sense is that industry is more rational today than in the past (value appreciation higher too, perhaps). Diffusion index 39.5 (down from 40.0 last quarter) with average base price increases +1.6%.
- **No-Programmers.** More modest decline, but new sales interest diffusion index fell to 45.2, back into negative territory. Importantly, this metric has only been negative 3x in the past 10 years (2x this year alone). Last quarter was neutral, at 50.
- **Growth Outlook.** Despite generally weak metrics in 4Q20, responses show average 12-month growth expectations little changed (slightly improved), from 3Q20 now at ~3%. Weaker than historical trend (3-5%), but not universally negative. Clear bifurcation in results too; firms with heavier hygiene/sanitation exposure (and general geographic/end market mix) fairing better.

Uniform Rental: Revenue Trends Versus Expectations

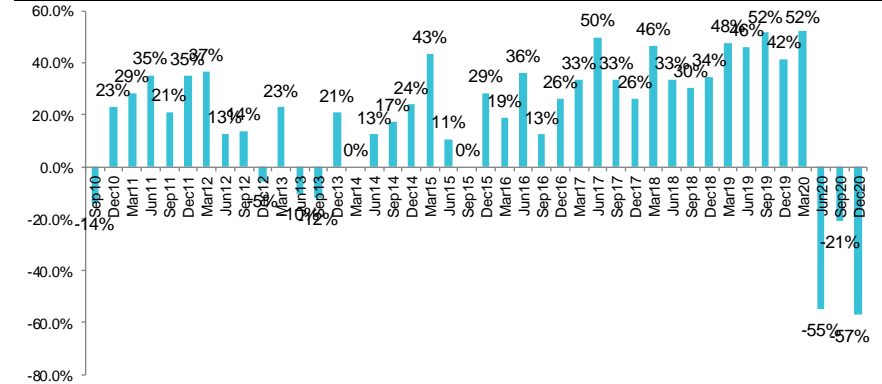
- Rental Revenue Trends.** 62% of respondents fell short of internal revenue projections for the quarter, a near record, with the relative spread between exceeding/falling short hitting a 14-year record (only 5% exceeded expectations).

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



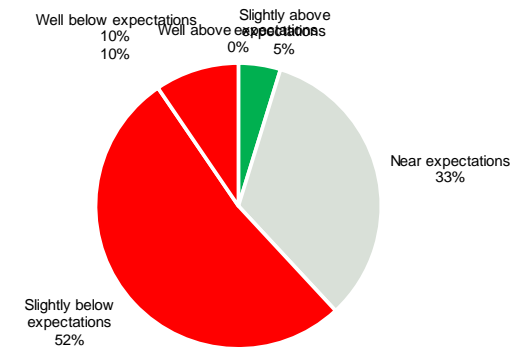
Source: Baird Research

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?

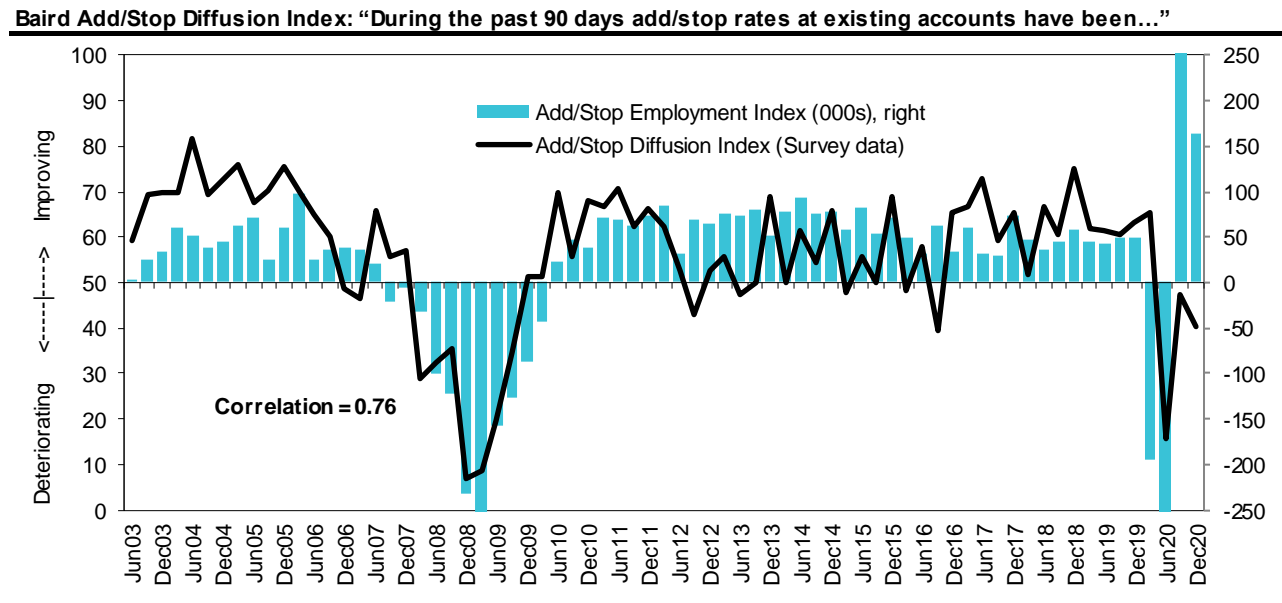


Source: Baird Research

Uniform Rental: Add/Stop Trends

- Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) fell to 40.5 in September, retesting historical lows (excluding 2Q20's "shock") and down from the share rebound to "neutral" in 2Q20 (47.5). Generally matches employment trends too.

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)

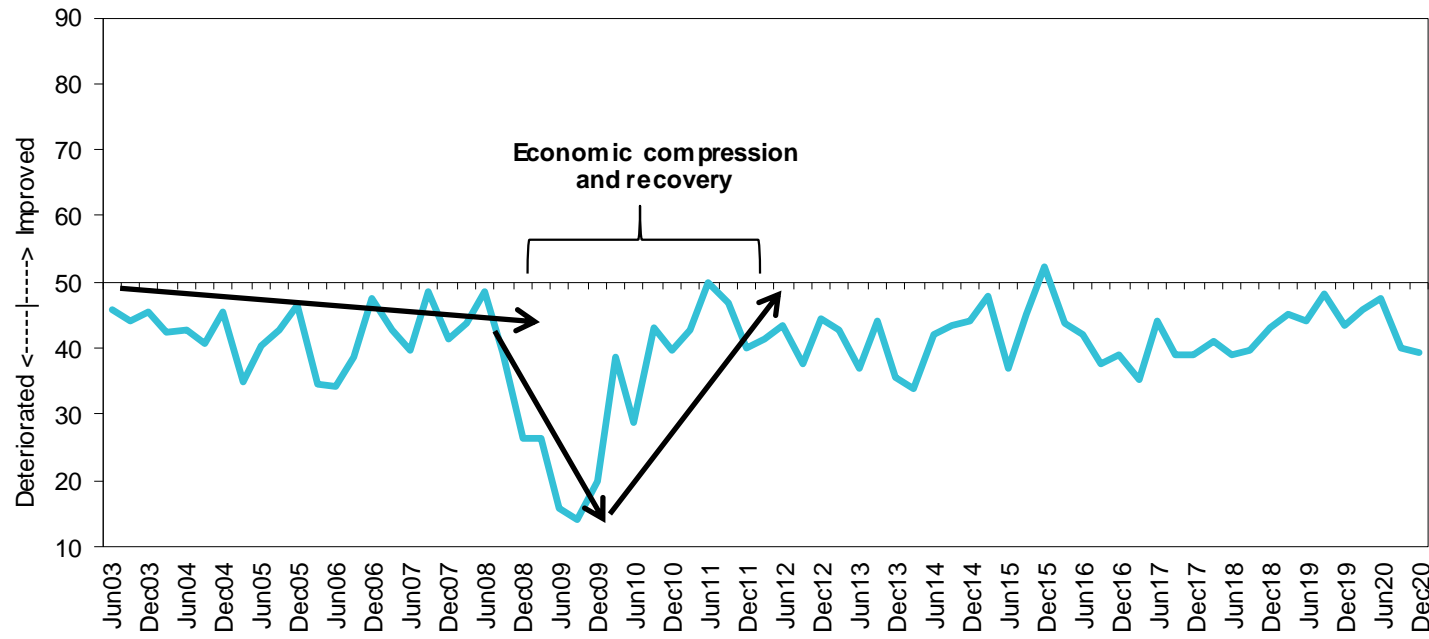


Source: Bureau of Labor Statistics and Baird Research

Uniform Rental: New Account Pricing Trends

- New Account Pricing.** New business trends remain negative but overall pricing gains (base contracts) still positive and our sense is that industry is more rational today than in the past (value appreciation higher too, perhaps). Diffusion index 39.5 (down from 40.0 last quarter).

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

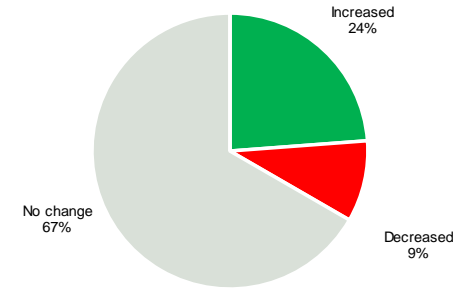


Source: Baird Research

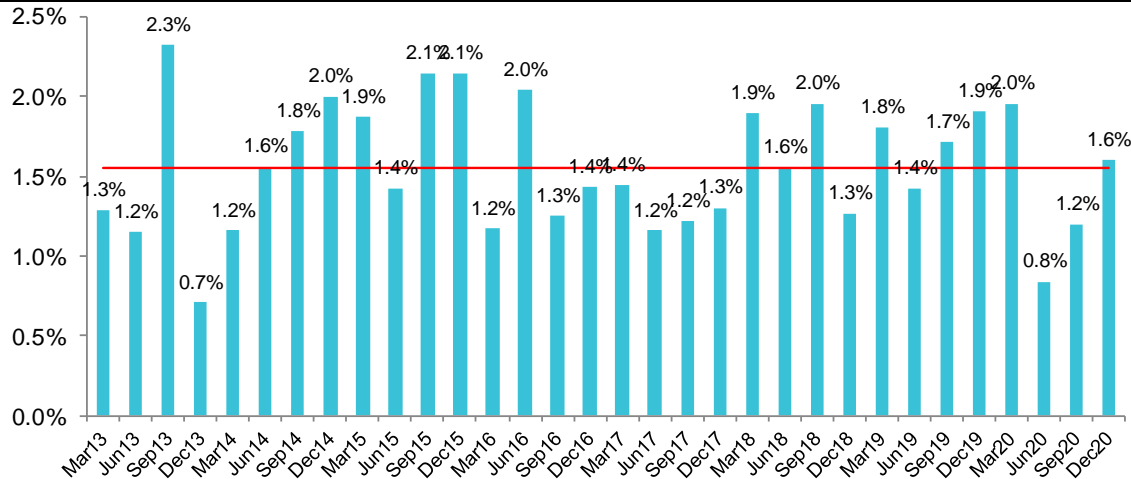
Uniform Rental: Existing Account Pricing Trends

- **Base (Existing) Account Pricing.** Base pricing gains increased to +1.6%. Importantly, pricing gains have remained positive all year while costs have fallen from temporary furloughs and discretionary cuts.

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



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

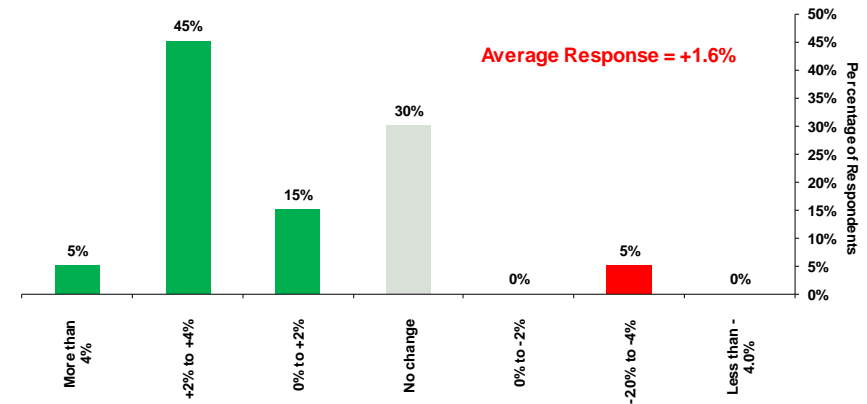


Note: Growth rates reflect average responses of survey participants; Red line indicates sample average

Source: Baird Research

Source: Baird Research

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

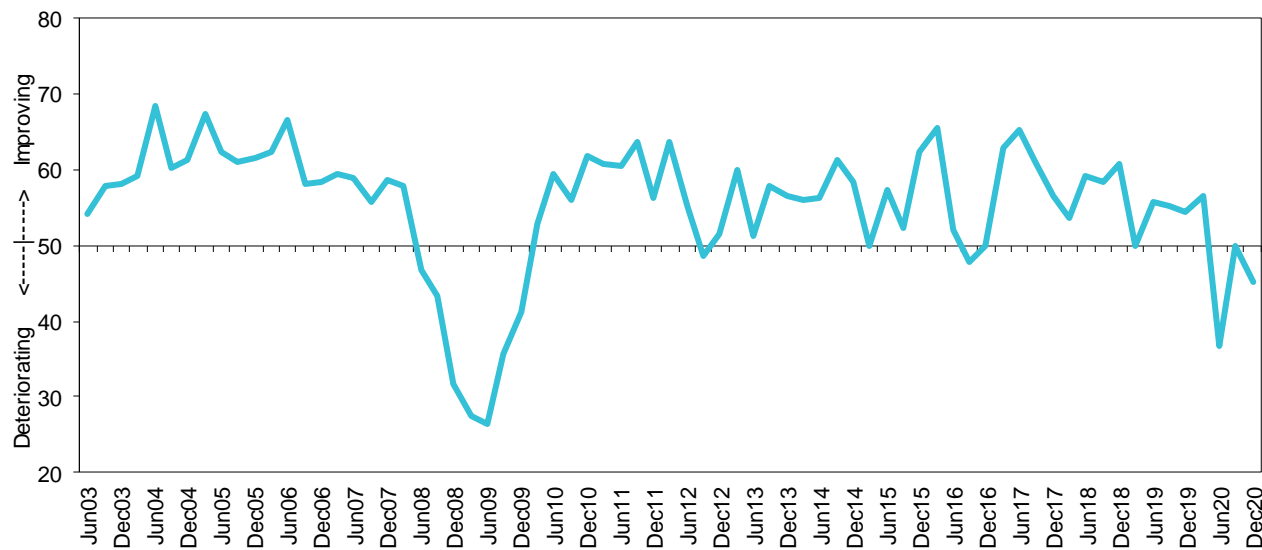


Source: Baird Research

Uniform Rental: New Business (No-Programmers) Trends

- **No-Programmers.** More modest decline, but new sales interest diffusion index fell to 45.2, back into negative territory. Importantly, this metric has only been negative 3x in the past 10 years (2x this year alone). Last quarter was neutral, at 50.

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

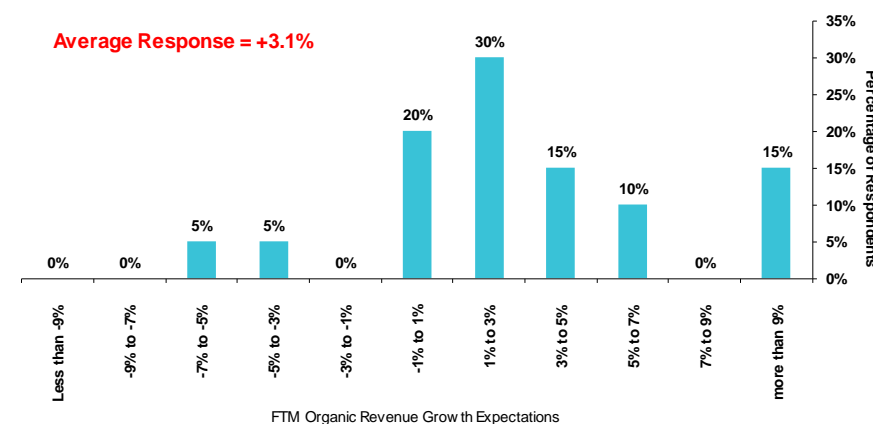


Source: Baird Research

Uniform Rental: 12-Month Growth Outlook

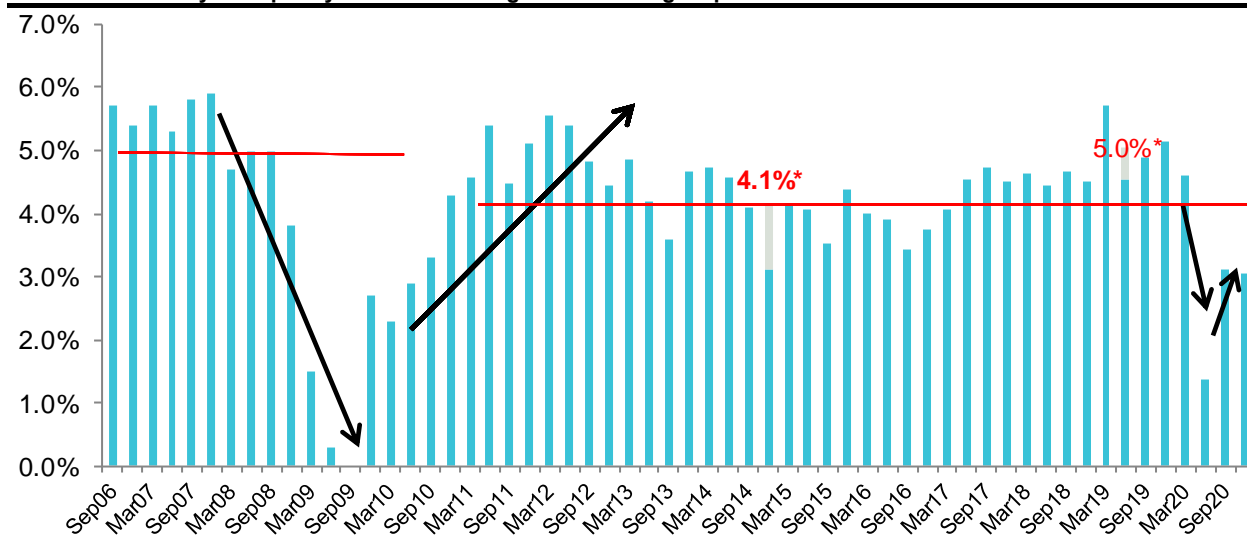
- Growth Outlook.** Despite generally weak metrics in 4Q20, responses show average 12-month growth expectations little changed (slightly improved), from 3Q20 now at ~3%. Weaker than historical trend (3-5%), but not universally negative. Clear bifurcation in results too; firms with heavier hygiene/sanitation exposure (and general geographic/end market mix) fairing better. 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; *4Q 14/2Q 19 adjusts for "outlier" response rates

Source: Baird Research

LINEN RENTAL TRENDS

Executive Summary: Linen Rental

LINEN RENTAL SURVEY SUMMARY

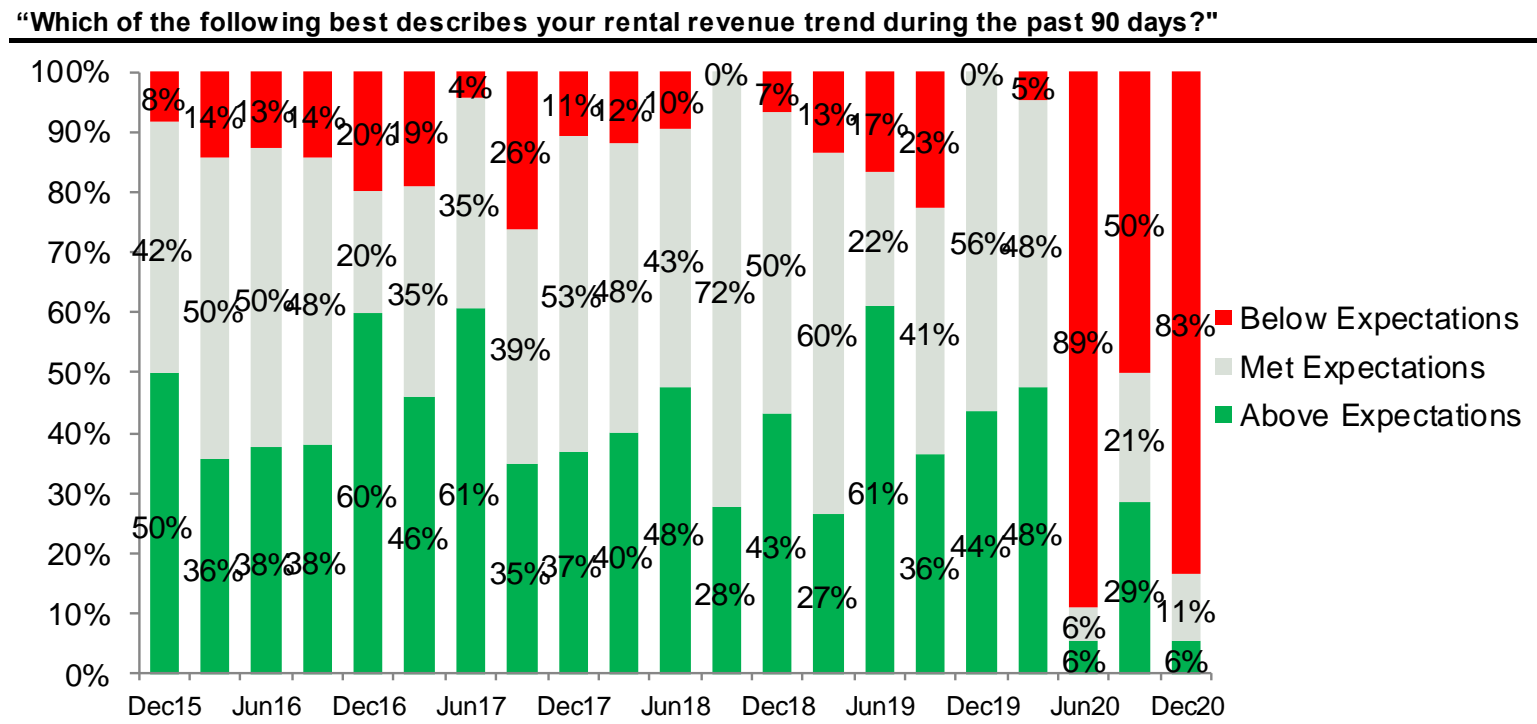
- **Linen rental business trends also weakened and remain more heavily pressured than uniform rental.** All metrics declined with 83% of respondents seeing revenue fall short of expectations in the quarter with pricing and no-programmer diffusion indices turning sharply negative. Growth expectations hold stable but remain subdued relative to prior years.

4Q20 LINEN RENTAL SURVEY HIGHLIGHTS

- **Rental Revenue Trends.** 83% of respondents cited rental revenue trends falling below expectations in 4Q20 with 11% citing revenue near expectation and 6% above expectations. This is similar to 2Q20's nadir and sharply lower than 3Q20.
- **New Account Pricing.** 33% of respondents cited more aggressive new account pricing in 4Q20 while 6% saw less aggressive pricing. Most (61%) saw no change. As a result, our diffusion index turned negative at 36.1 (down from neutral 50 last quarter).
- **Base Account Pricing.** The average price increase on existing accounts undergoing price review in 4Q20 was +1.2%, up slightly from 3Q20 levels. Overall, 50% of respondents cited price increases with 44% reporting no material change.
- **No-Programmers.** No-programmer interest showed QOQ deterioration and turned negative at 38.2 after turning positive last quarter (53.6). This is only the second negative reading in this index in the five years we have tracked it, both this year.
- **Growth Outlook.** Forecasted 12-month revenue outlook held stable at +1.6%, below the forecast for uniform rental (~3%) and below previous years' forecasts of ~5%.

Linen Rental: Revenue Trends Versus Expectations

- Rental Revenue Trends.** 83% of respondents cited rental revenue trends falling below expectations in 4Q20 with 11% citing revenue near expectation and 6% above expectations. This is similar to 2Q20's nadir and sharply lower than 3Q20.

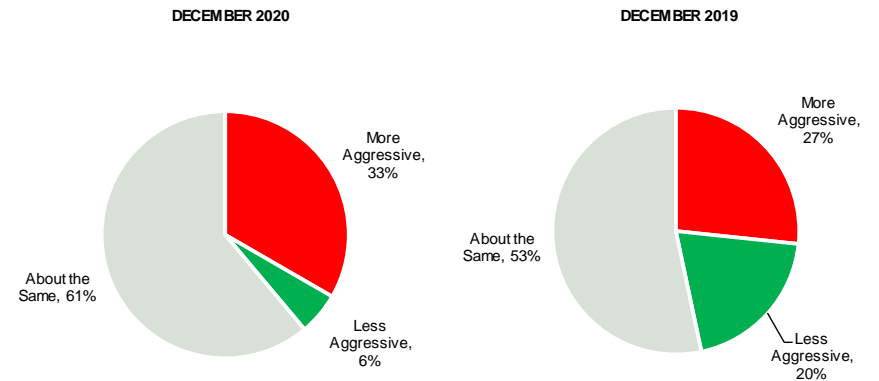


Source: Baird Research

Linen Rental: New Account Pricing Trends

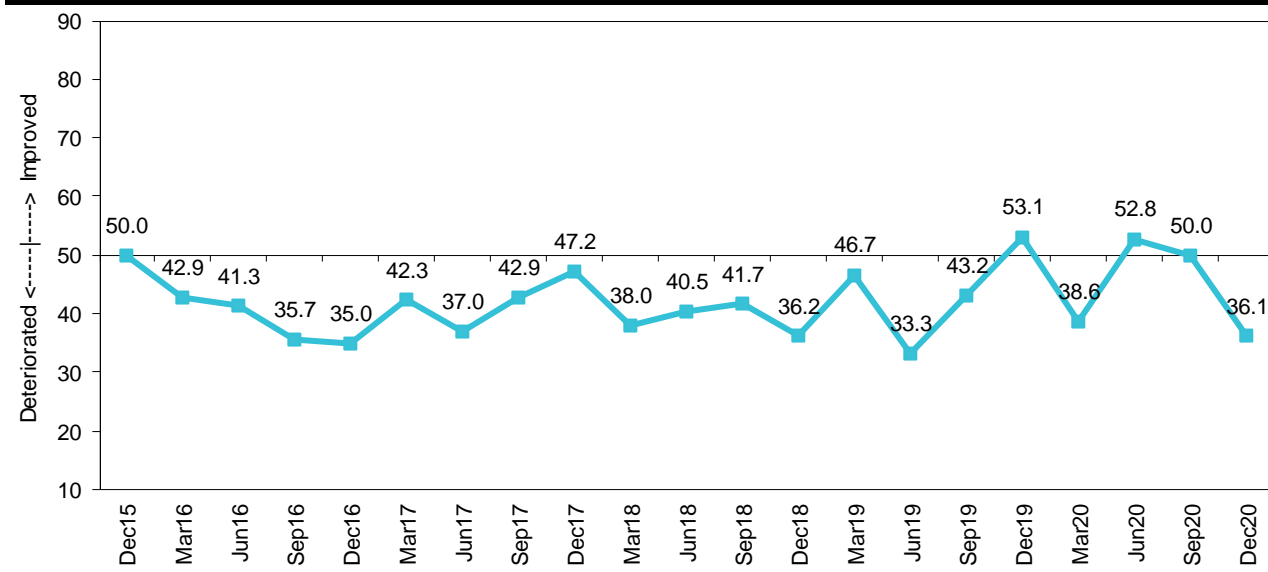
- New Account Pricing.** 83% of respondents cited more aggressive new account pricing in 2Q20 while 8% saw less aggressive pricing. The vast majority (85%) saw no change. As a result, our diffusion index held at a neutral 50.0 reading. See charts.

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



Source: Baird Research

Baird Linen Rental Price Diffusion Index



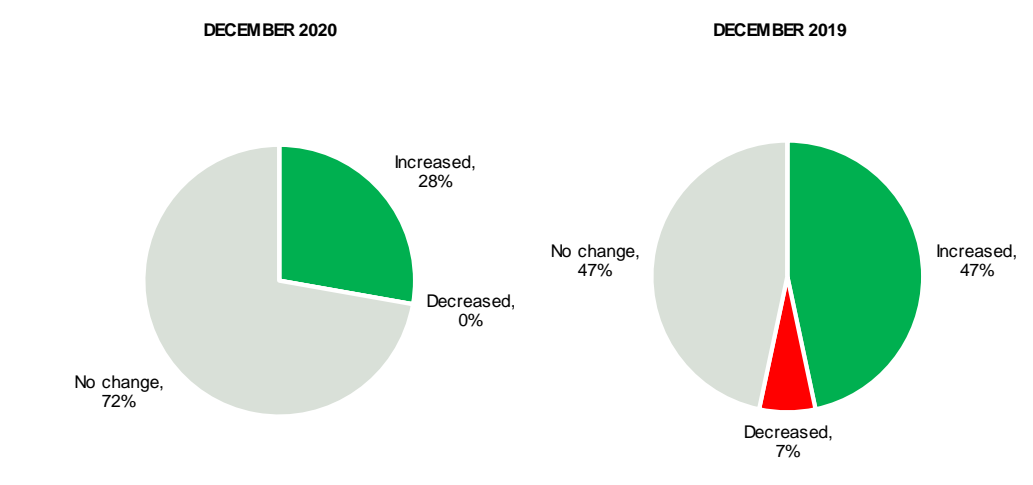
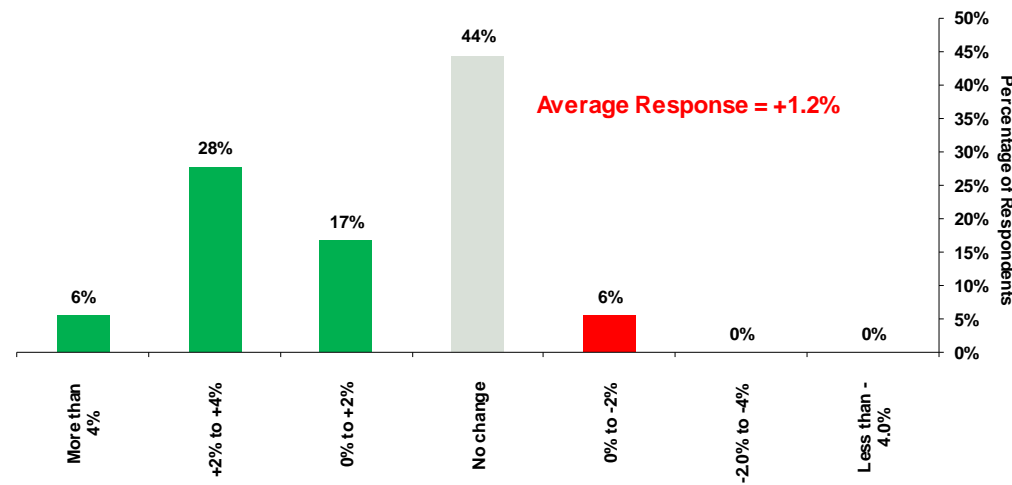
Source: Baird Research

Linen Rental: Existing Account Pricing Trends

- Base Account Pricing.** The average price increase on existing accounts undergoing price review in 4Q20 was +1.2%, up slightly from 3Q20 levels. Overall, 50% of respondents cited price increases with 44% reporting no material change.

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

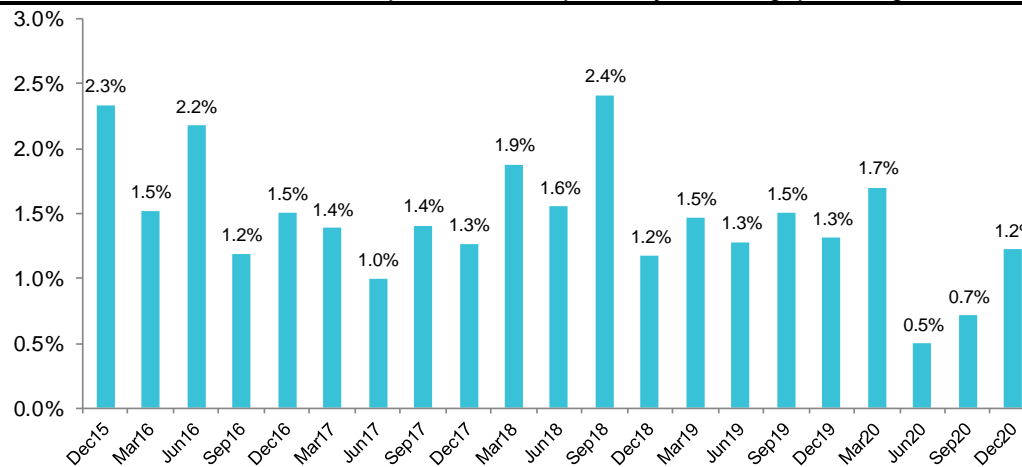
During the past 90 days, pricing on existing rental accounts has:



Source: Baird Research

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

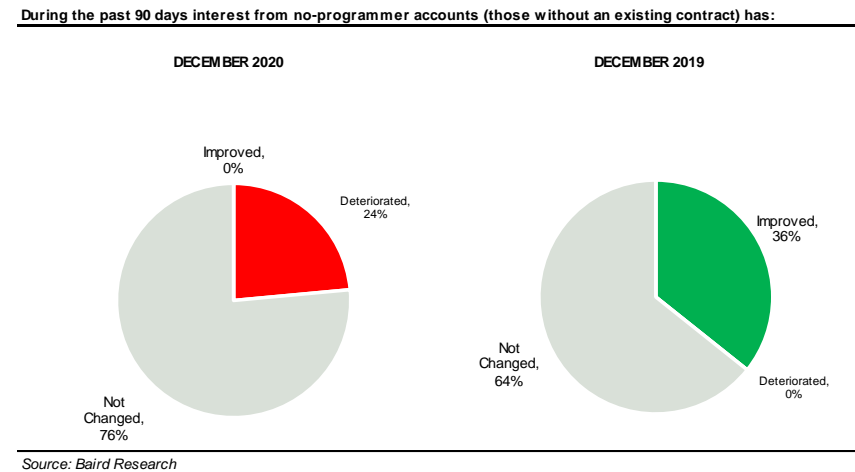


Source: Baird Research

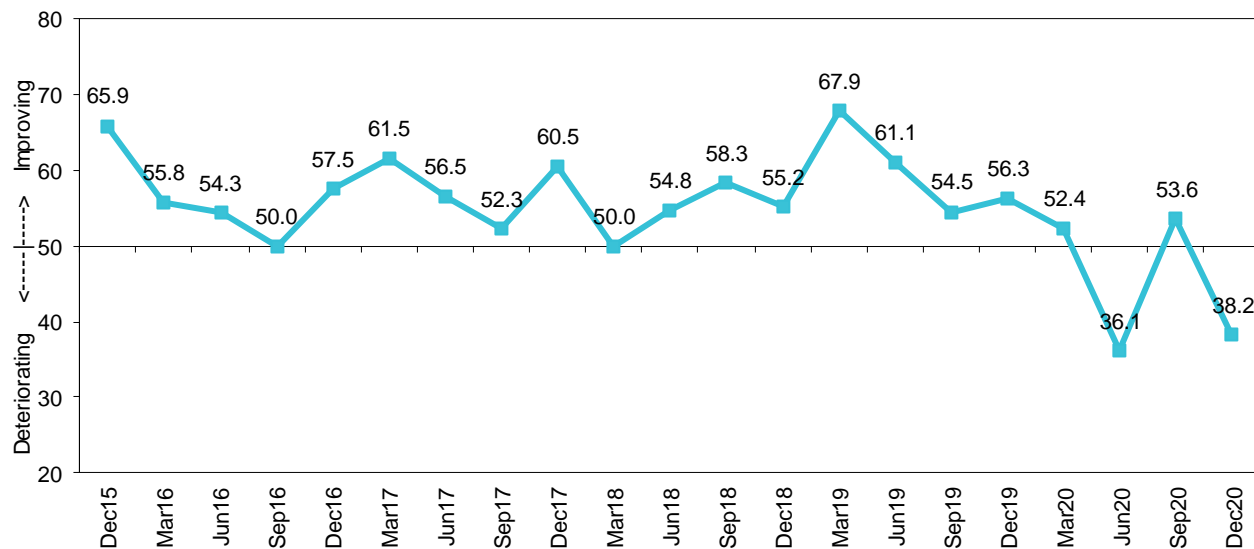


Linen Rental: New Business (No-Programmers) Trends

- No-Programmers.** No-programmer interest showed QOQ deterioration and turned negative at 38.2 after turning positive last quarter (53.6). This is only the second negative reading in this index in the five years we have tracked it, both this year. See charts.



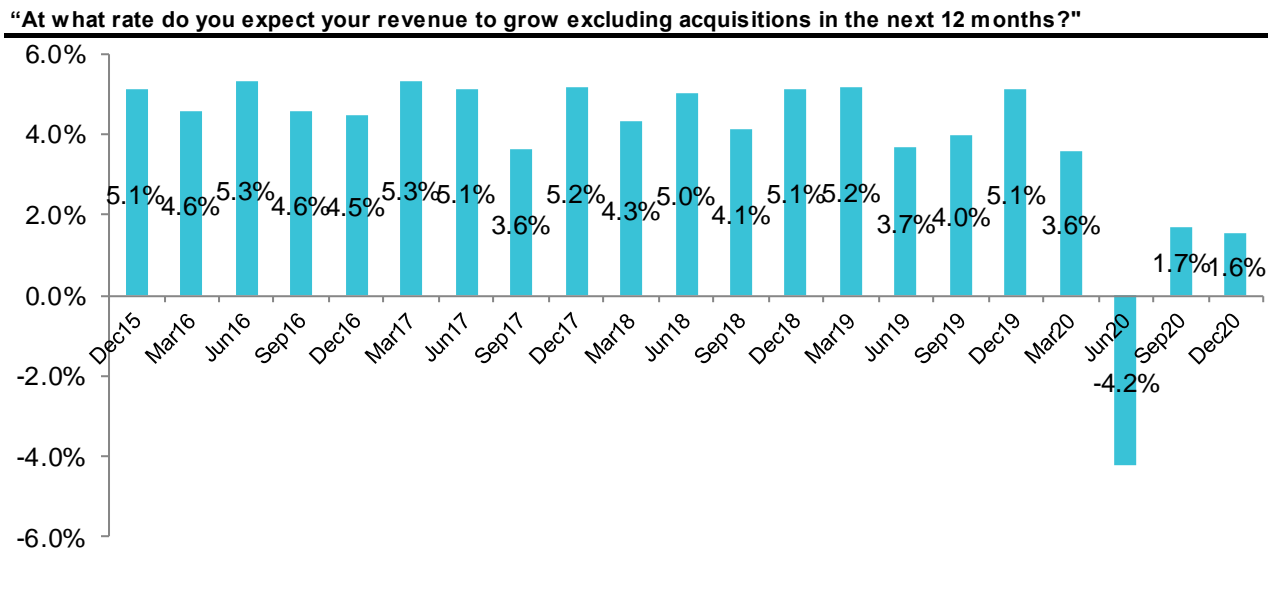
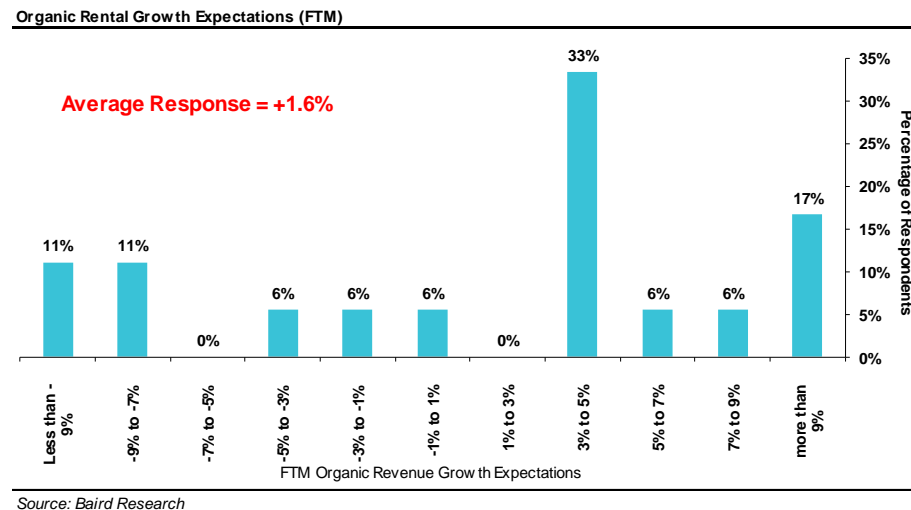
Baird Linen Rental No-Programmer Diffusion Index



Source: Baird Research

Linen Rental: 12-Month Growth Outlook

- Growth Outlook.** Forecasted 12-month revenue outlook held stable at +1.6%, below the forecast for uniform rental (~3%) and below previous years' forecasts of ~5%. See charts.



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Appendix – Important Disclosures and Analyst Certification



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