CONSOLIDATION TRENDS

POST-COVID MERGERS & ACQUISITIONS—
DESPITE OPERATIONAL CHALLENGES, SELLING PRICES ARE UP

Costlier loans, plus labor and supply-chain issues, coupled with downturn fears, have scrambled M&A expectations

By Jim Gutheim

Rising interest rates have affected our industry, but not all laundry operators have felt the same impact. The higher rates for borrowing have affected smaller independent laundries more than the chains. The larger companies have ample resources, so it's less of an issue for them. When the chains are looking to acquire a smaller laundry, a $10 million-$15 million purchase price is a relatively insignificant amount of money to them. Therefore, the rise in interest rates is having a minimal impact on merger and acquisition (M&A) activity. Smaller independent laundries, which have far fewer resources, will feel the increase far more when acquiring another company. That said, higher borrowing costs aren't preventing them from pursuing acquisitions. We are finding that they are instead applying a more selective approach in how they choose to use their resources.

LABOR SHORTAGE

The current difficulties with hiring employees is a nationwide trend, and the laundry industry is no exception. Several acquisition deals that we've worked on in the past couple of years have either faced delays or fallen apart due to a shortage of employees needed to service the new accounts. The inability to employ enough staff to handle the increased production that an acquisition would require is not the only hurdle in today's post-lockdown world.

We've also found that some of our clients don't have the ability to consider a potential acquisition when they already have staff-related cost issues. When you're already paying overtime just to get your own work out, it's difficult for owners to think about increasing their revenue. However, that said, there are some situations we've encountered where a target company has had no workforce issues, and the purchasing company views this as an additional benefit to their acquisition. Not only are they buying business, but they are able to increase their overall workforce through the purchase.

POST COVID/LOCKDOWN ERA

The effect of COVID and the subsequent lockdowns were devastating for businesses worldwide. For some laundry companies—especially in the food & beverage (F&B) and hospitality sectors—it was a disaster. Many companies barely survived, losing up to 90% of their business. However, the good news is that most laundries today have not only returned to their pre-COVID revenue levels—some are exceeding them.

While the financial effects of Covid have dissipated for most, the psychological impacts remain for some. Many laundry owners, like people around the world, were ill-prepared for this "black swan" event. It's not surprising that few were prepared for a crisis that was completely unprecedented. This has impacted the attitudes of many operators toward selling their businesses.

Before COVID, many believed that they'd continue making the same amount of money every year for the next 5–10 years. Or if business went well, they'd make more over that timeframe. Post-COVID, many owners now recognize that nothing is guaranteed. Just because they've grown 5% a year for the last few years doesn't mean that's always going to happen. They now have a better understanding that there could be another unforeseen event such as a pandemic, hurricane, flood, fire, etc., that could once again wipe out huge swaths of business. For many owners, this is a frightening thought. That's especially true if—like most independents—the majority of their "eggs" (i.e., their financial future) are held in one, now seemingly precarious, basket.

SUPPLY-CHAIN ISSUES

Once again, the laundry industry finds itself in a position similar to the rest of the business world when it comes to supply-chain issues. Although conditions have improved from two years ago, some laundries are still battling with this issue. While many of the causes have abated or in some cases, fully subsided, there are still geopolitical tensions, labor shortages, freight-rail and long-haul trucking capacity issues, etc. that continue to slow down the supply-chain process.

Like the labor shortage, the lack of merchandise, equipment, vehicles, etc., creates another potential diversion for buyers. Their desire to purchase more business can be hampered when owners find it difficult to service their existing customers.

OUTLOOK

While each of the factors listed above stand out as impediments for the laundry industry, we've found that for some owners, they've spurred a desire to sell. Some of the owners we deal with have said, "enough is enough." They are burned out. While that's disappointing for some, there's a silver lining for them in that prices for buying a business now have never been higher. Several recent deals that we've brokered have received the highest multiples we've ever seen. So, in essence, if you're looking to continue running your business, it may be a while before these problems fade away. Conversely, if you're looking to sell, there's never been a better time.

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