



Business Services Research

December 18, 2023

Robert W. Baird & Co. 4Q 2023 Textile Rental Services Survey

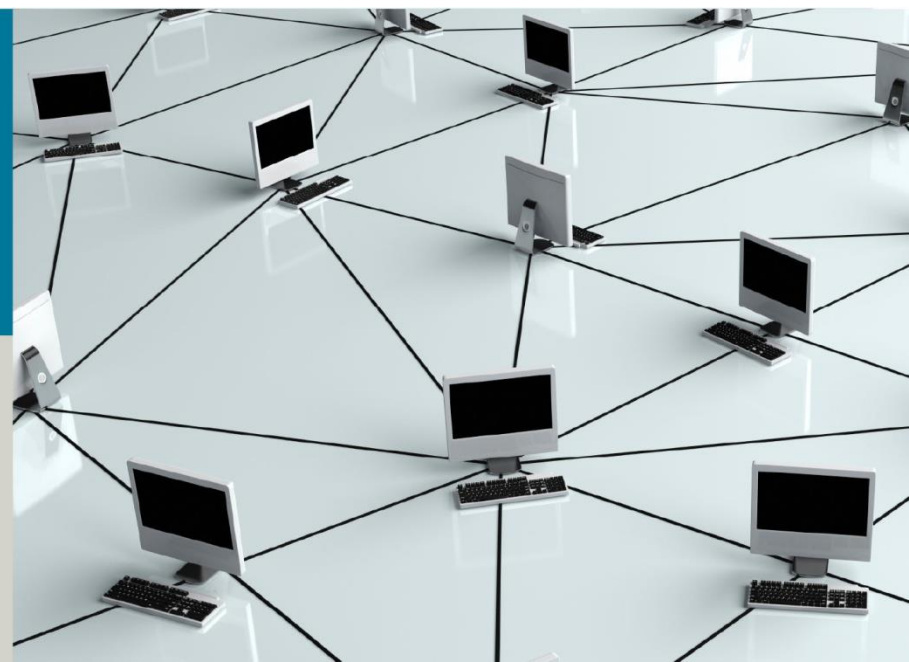
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**Please refer to Appendix – Important Disclosures and
Analyst Certification on pages 20-23**



Overview



- Thank you to the ~500 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

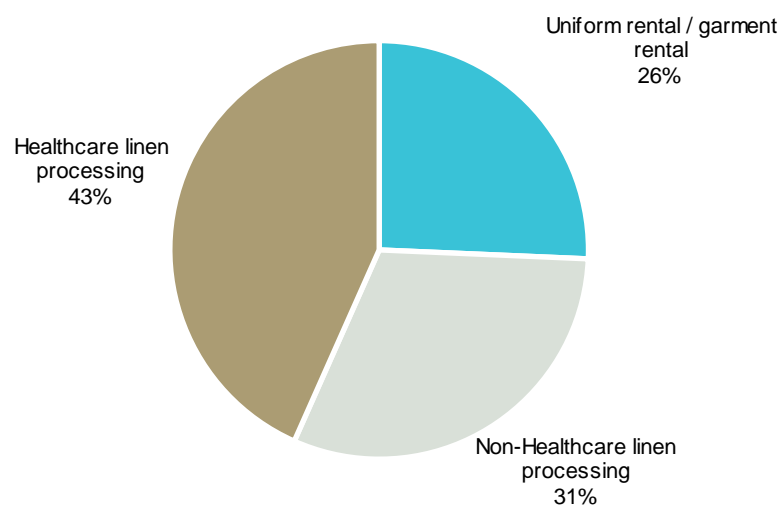
All responses are presented in aggregate form

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 ~500 independent firms (*26 responses*)

Survey Respondent Prolife: Revenue by Service Line (%)



Source: Baird Research

UNIFORM RENTAL TRENDS

Executive Summary: Uniform Rental

UNIFORM RENTAL SURVEY SUMMARY

- **Steady-state.** Most indicators little changed QOQ with some positives/negatives. 2024 revenue growth expectations assume more "historical" growth rates (~3-5%), though could be conservative with still above-average price contribution. Some downtick in new customer interest and more respondents seeing revenue shortfalls in 4Q23 versus beats. But mostly status quo. Key results:

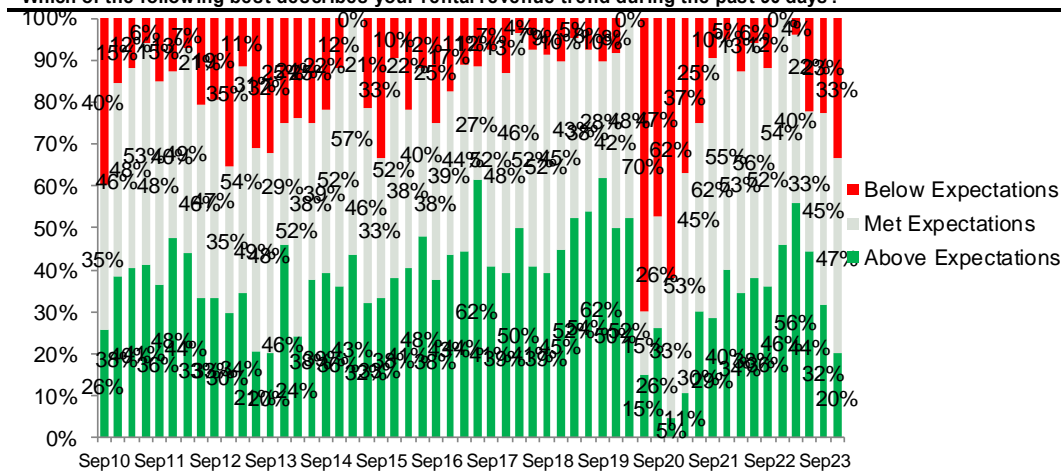
4Q23 UNIFORM RENTAL SURVEY HIGHLIGHTS

- **Rental revenue trends.** 20% of respondents beat their internal revenue expectations for the quarter versus 33% falling short (47% as expected).
- **Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) held in positive territory at 53.6 (from 56.8 last quarter and a neutral 50.0 reading in June). Parallels still strong employment data.
- **No-Programmers.** Our no-programmer (new customers without an existing rental program) diffusion index dipped negative in 4Q23 to 46.4. This index has been vacillating between positive/negative all year, so not a major surprise.
- **Pricing.** Base pricing remains high (versus history) but has moderated from prior peaks, with average respondent reporting price increases on existing accounts +2.9% (essentially unchanged from the last several quarters). Historical price contribution has been closer to +2%. New contract pricing, as always, remains competitive (42.9 versus 47.7 last quarter). This index has only been >50 twice in our survey's 20-year history.
- **Growth outlook.** Respondents expect ~4% rental revenue growth in 2024, which is about average (~3-5%) but a slight deceleration from prior quarters.

Uniform Rental: Revenue Trends Versus Expectations

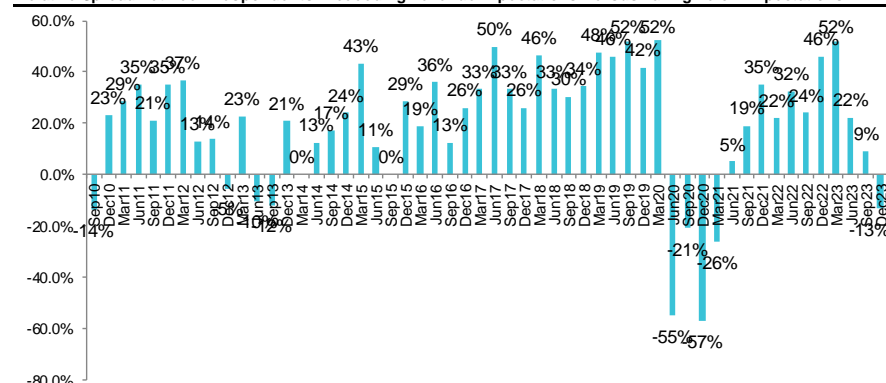
- Rental Revenue Trends.** 20% of respondents beat their internal revenue expectations for the quarter versus 33% falling short (47% as expected). It is worth noting that this is the first quarter with more shortfalls than beats since COVID.

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



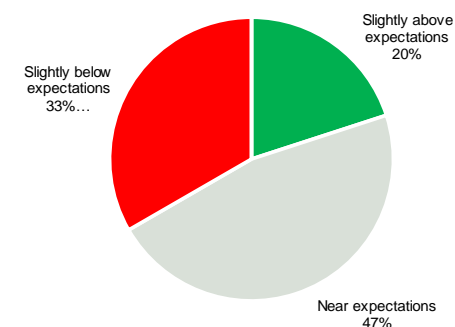
Source: Baird Research

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?



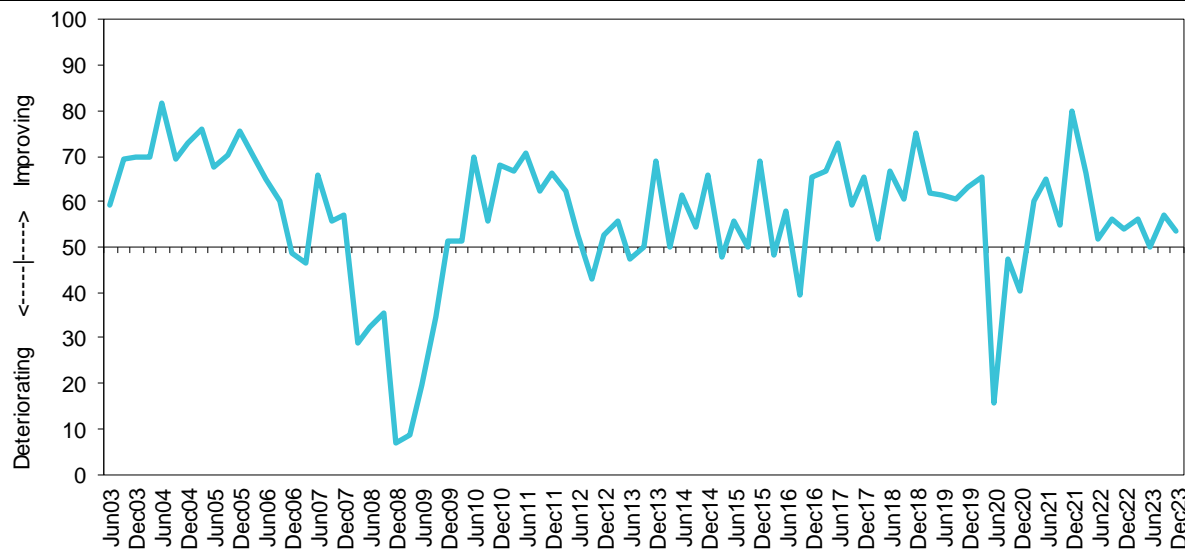
Source: Baird Research

Uniform Rental: Add/Stop Trends

- **Add/Stops.** Employment-driven expansion at existing accounts (i.e., Add/Stop Diffusion Index) held in positive territory at 53.6 (from 56.8 last quarter and a neutral 50.0 reading in June). Parallels still strong employment data.

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)

Baird Add/Stop Diffusion Index: "During the past 90 days add/stop rates at existing accounts have been..."

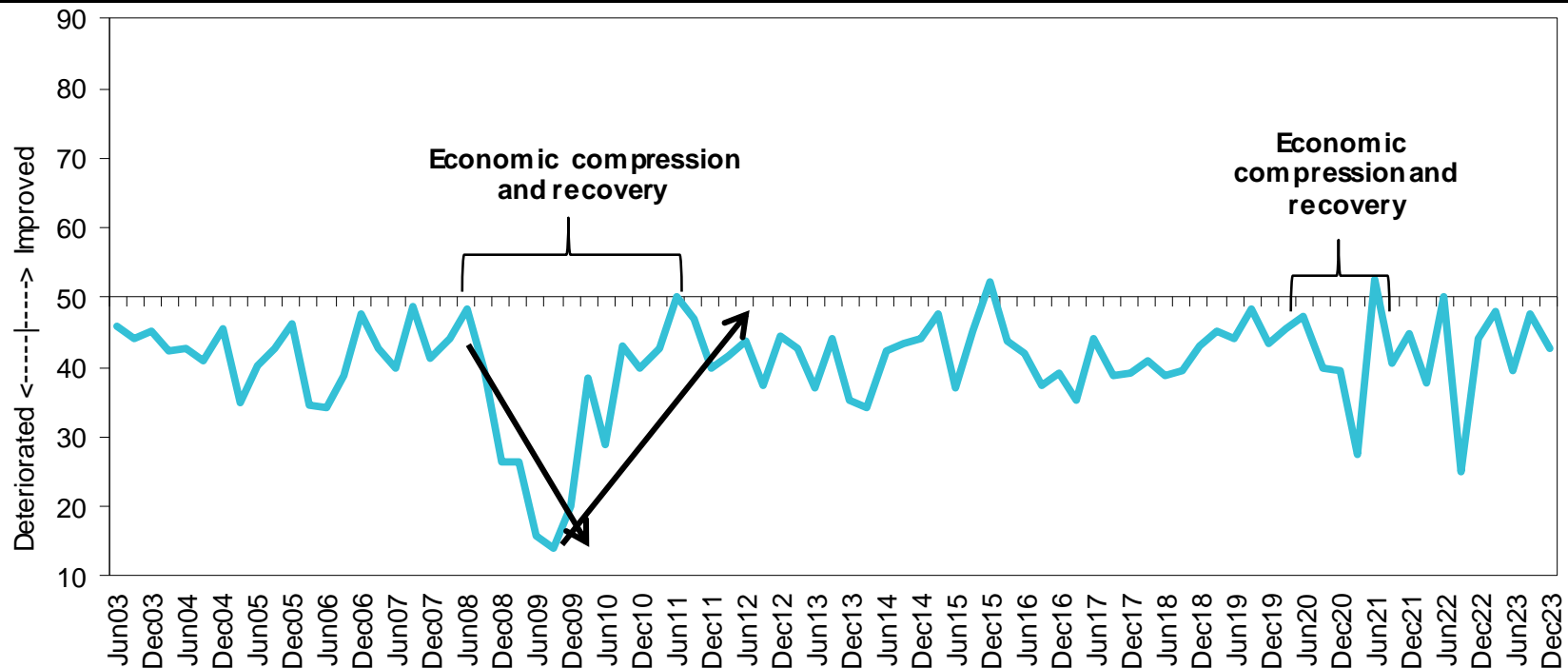


Source: Baird Research

Uniform Rental: New Account Pricing Trends

- **New Account Pricing.** New contract pricing, as always, remains competitive (42.9 versus 47.7 last quarter). This index has only been >50 twice in our survey's 20-year history.

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

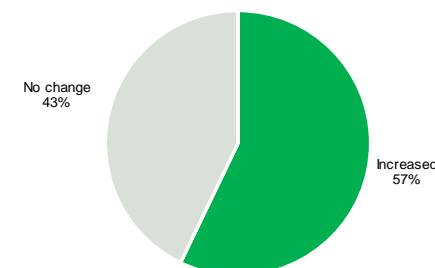


Source: Baird Research

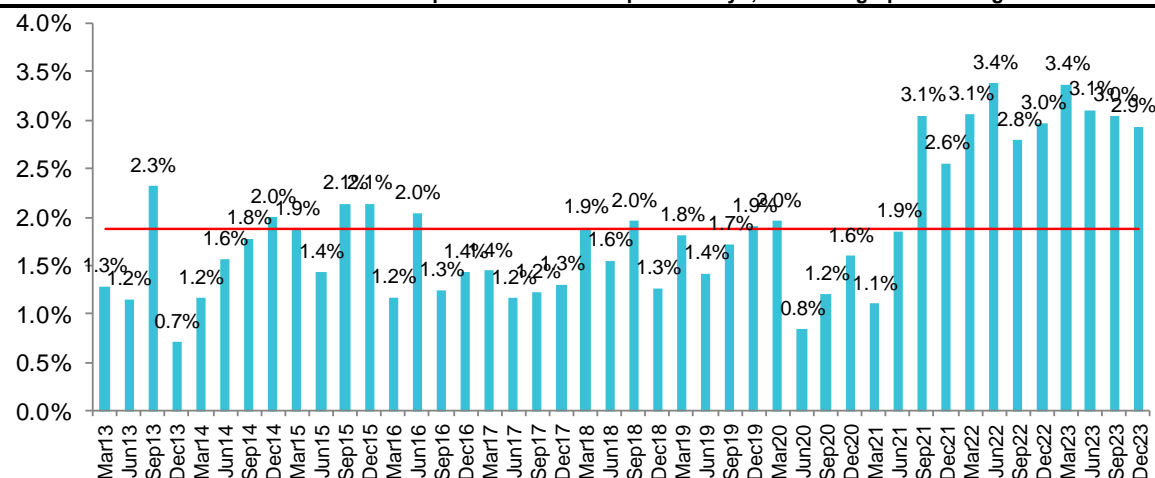
Uniform Rental: Existing Account Pricing Trends

- **Base (Existing) Account Pricing.** Base pricing remains high (versus history) but has moderated from prior peaks, with average respondent reporting price increases on existing accounts +2.9% (essentially unchanged from the last several quarters). Historical price contribution has been closer to +2%.

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..."

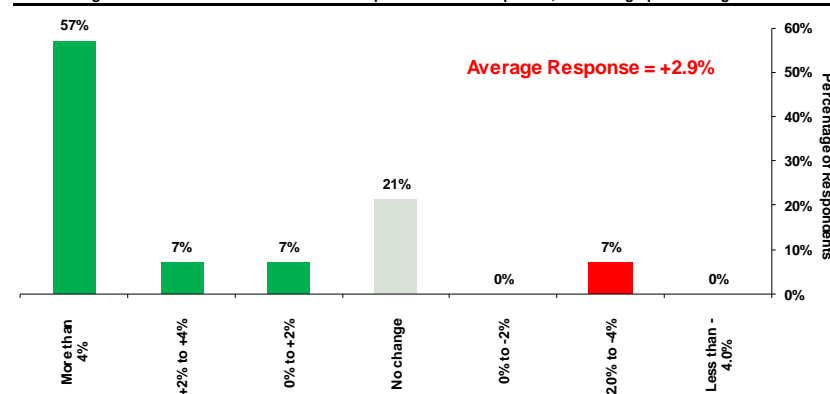


Note: Growth rates reflect average responses of survey participants; Red line indicates sample average

Source: Baird Research

Source: Baird Research

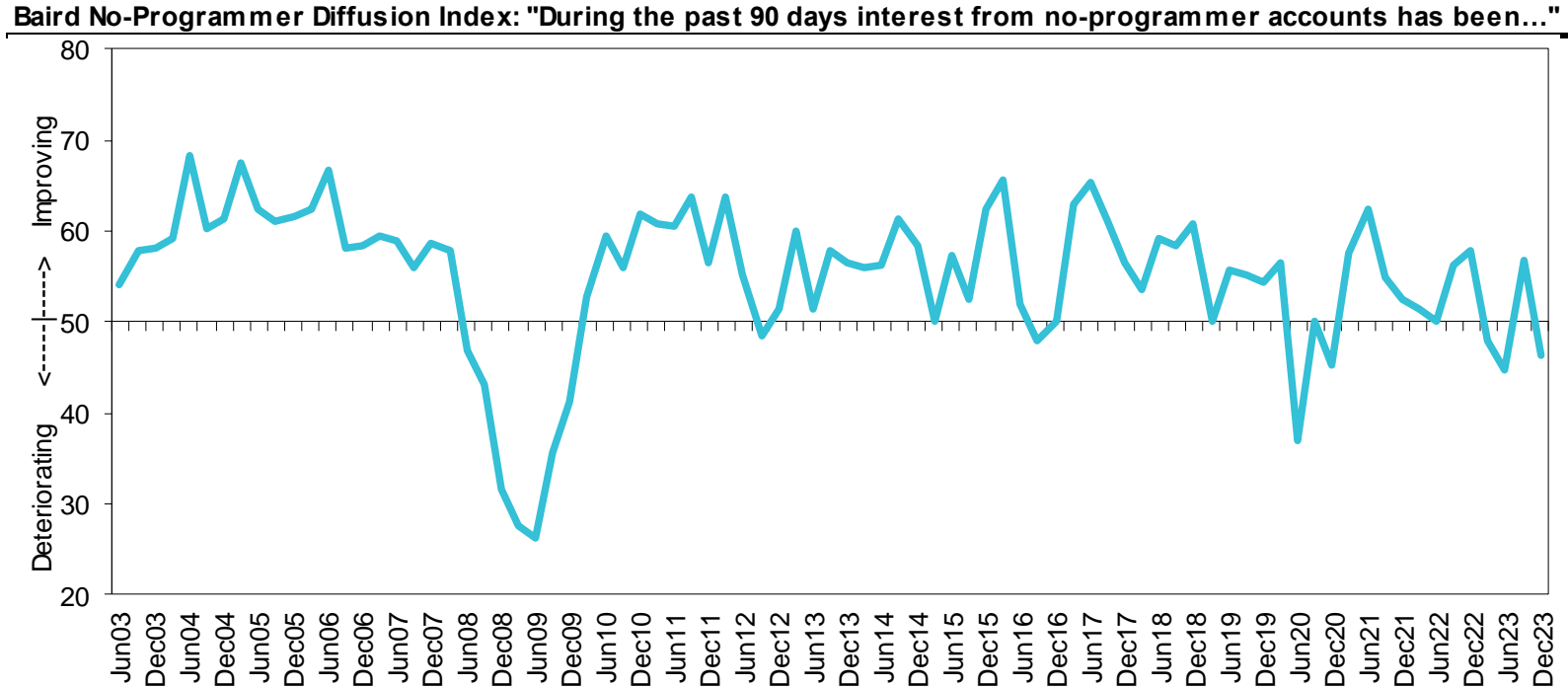
For existing accounts which underwent an annual price review this quarter, the average price change was:



Source: Baird Research

Uniform Rental: New Business (No-Programmers) Trends

- **No-Programmers.** Our no-programmer (new customers without an existing rental program) diffusion index dipped negative in 4Q23 to 46.4. This index has been vacillating between positive/negative all year, so not a major surprise.

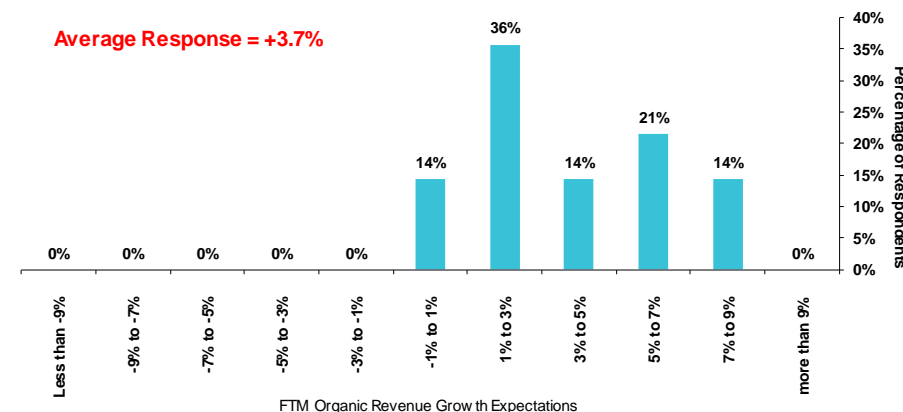


Source: Baird Research

Uniform Rental: 12-Month Growth Outlook

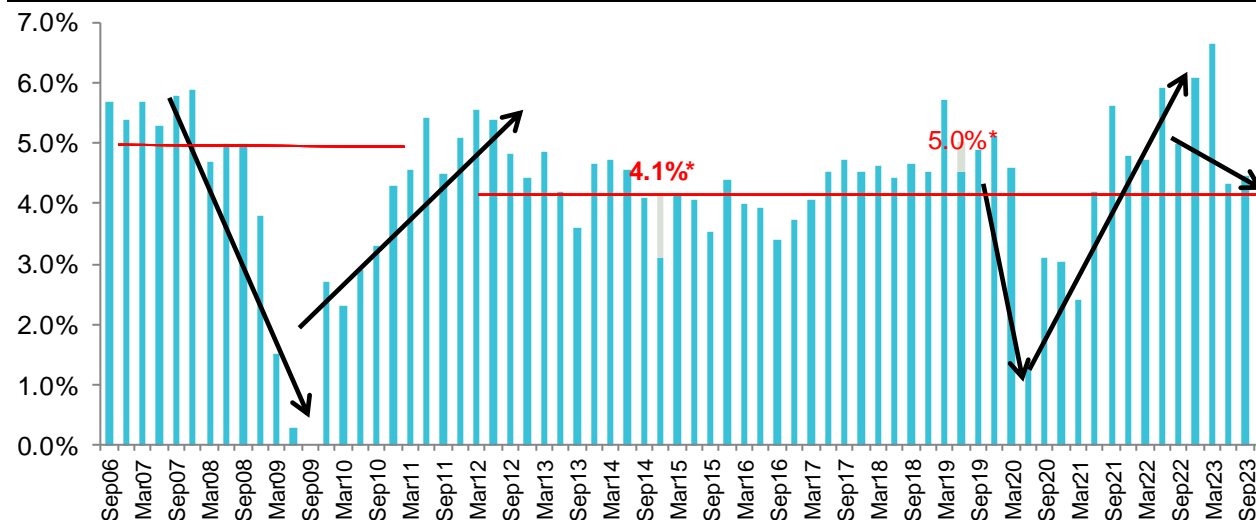
- **Growth Outlook.** Respondents expect ~4% rental revenue growth in 2024, which is about average (~3-5%) but a slight deceleration from prior quarters. See charts.

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

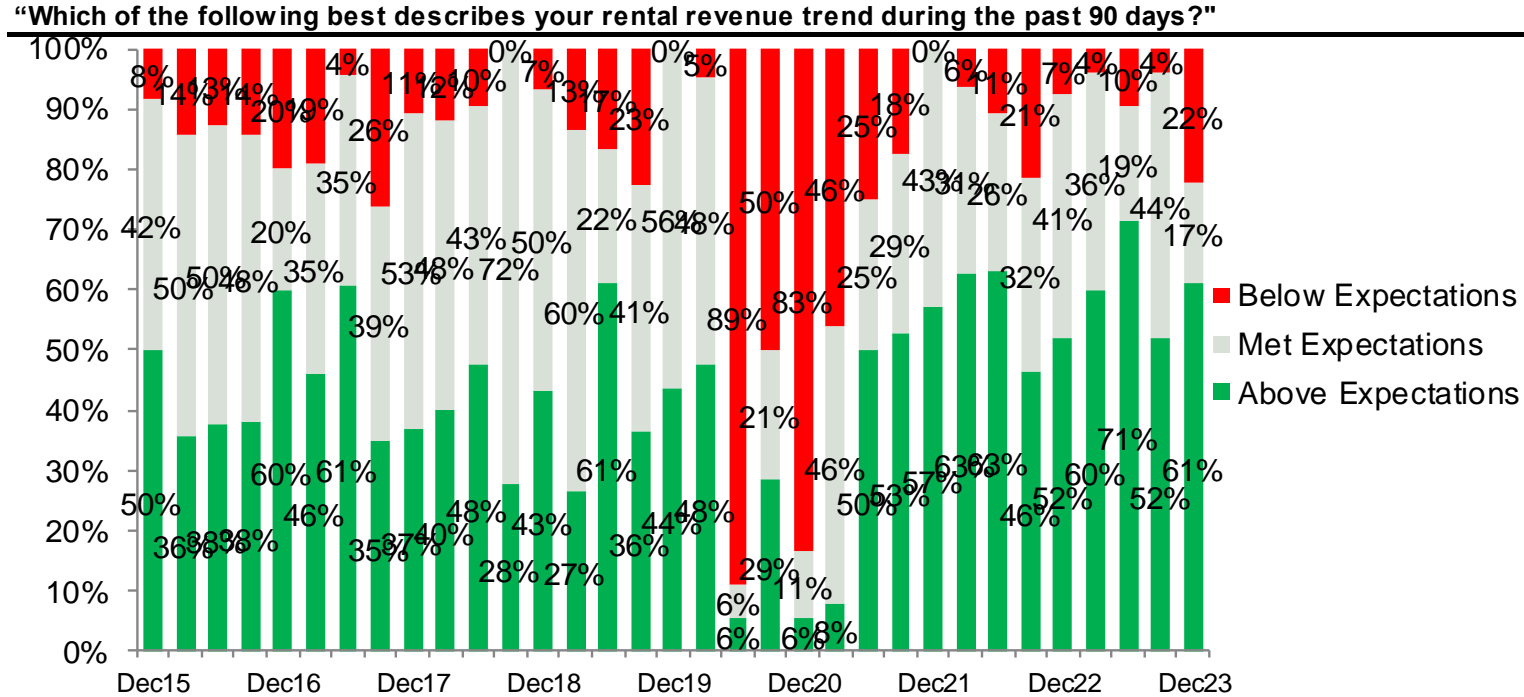
- **Linen rental trends still appear to be stronger than uniform rental trends.** Revenue growth expectations and price contributions have similarly moderated but growth expectations still above uniform rental levels. Continued strong no-programmer interest contrasts with the weaker uniform results. Vast majority of respondents beat their internal revenue growth expectations in 4Q23 as well.

4Q23 LINEN RENTAL SURVEY HIGHLIGHTS

- **Rental Revenue Trends.** 61% of respondents cited rental revenue trends above expectations with 17% in-line and 22% falling short. 39% relative spread continues trends of revenue at/above expectations, versus uniform rental, where more fell short than above.
- **New Account Pricing.** 94% reported no change in new account pricing (which is good), with just 6% seeing more aggressive pricing bids. Our diffusion index improved to 47.2 (from 46). However, like uniforms, this metric has historically been negative (i.e., <50).
- **Base Account Pricing.** The average price increase on existing accounts undergoing price review in 4Q23 was +2.3%. This is lower than in uniform rental and more in-line with historical levels.
- **No-Programmers.** No-programmer interest remained solidly positive at 63.9, little changed from 66.0 last quarter and remaining near record levels. The index has been in expansionary territory since dipping negative in 2020.
- **Growth Outlook.** Forecasted 12-month revenue outlook moderated to 4.4% (from 5.5%) but is slightly above the outlook for uniform rental revenue growth rates.

Linen Rental: Revenue Trends Versus Expectations

- **Rental Revenue Trends.** 61% of respondents cited rental revenue trends above expectations with 17% in-line and 22% falling short. 39% relative spread continues trends of revenue at/above expectations, versus uniform rental, where more fell short than above.

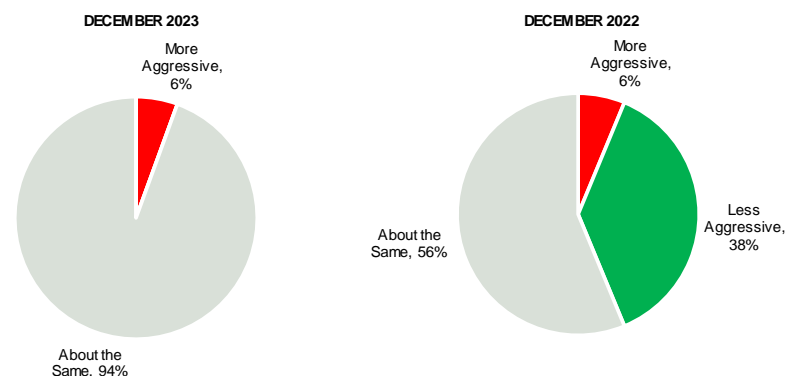


Source: Baird Research

Linen Rental: New Account Pricing Trends

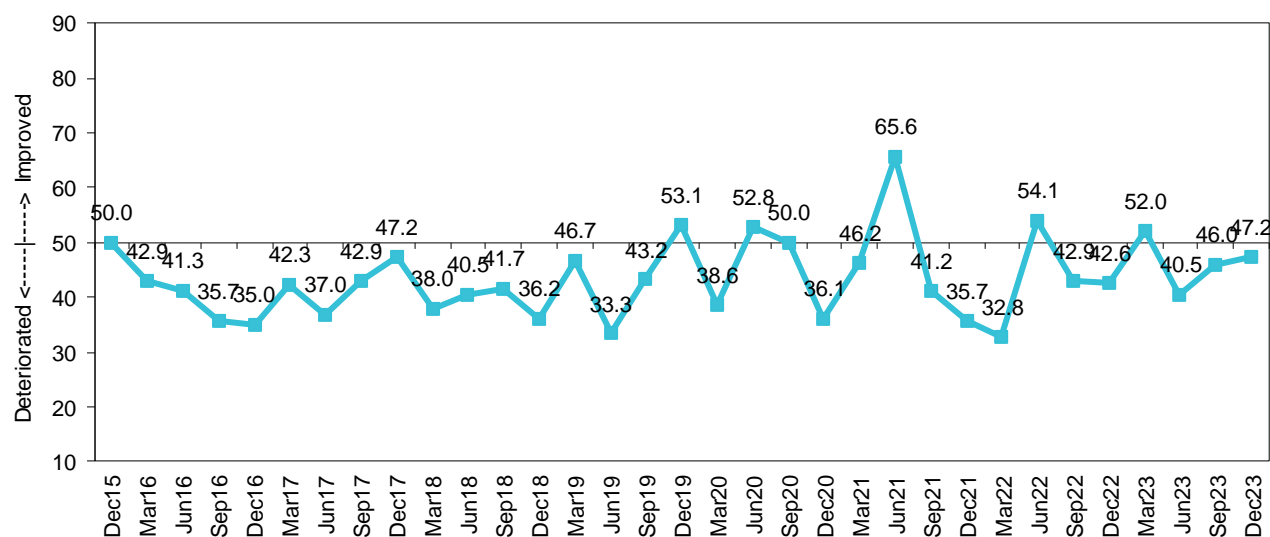
- **New Account Pricing.** 94% reported no change in new account pricing (which is good), with just 6% seeing more aggressive pricing bids. Our diffusion index improved to 47.2 (from 46). However, like uniforms, this metric has historically been negative (i.e., <50). See charts.

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



Source: Baird Research

Baird Linen Rental Price Diffusion Index

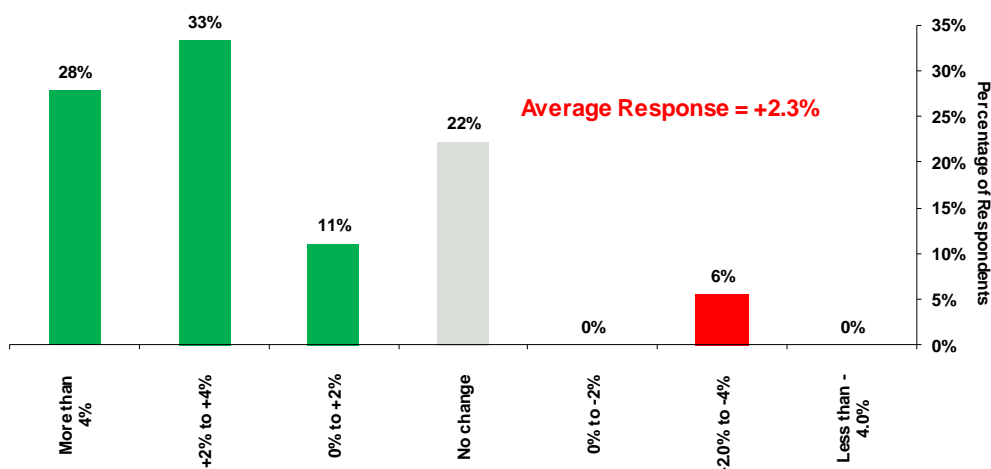


Source: Baird Research

Linen Rental: Existing Account Pricing Trends

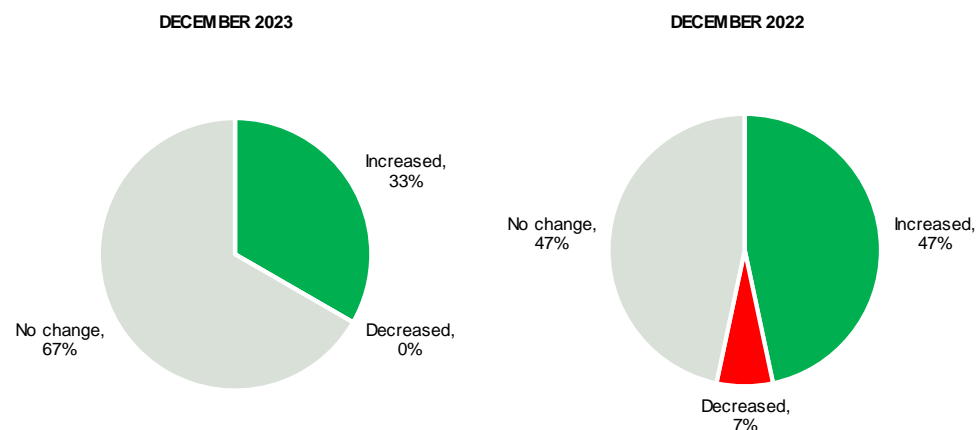
- **Base Account Pricing.** The average price increase on existing accounts undergoing price review in 3Q23 was +2.7%, similar to recent quarters but off the record +3.5% reported in early 2022. Most respondents cite healthy pricing gains.

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



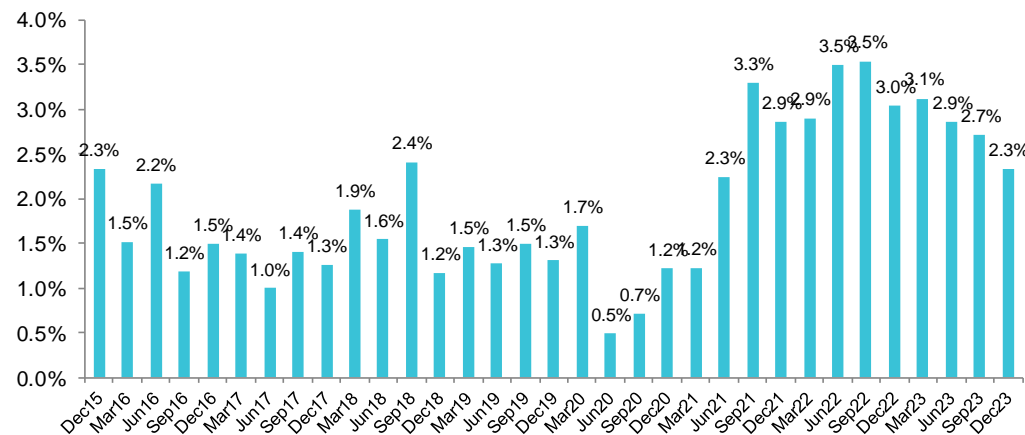
Source: Baird Research

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



Source: Baird Research

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

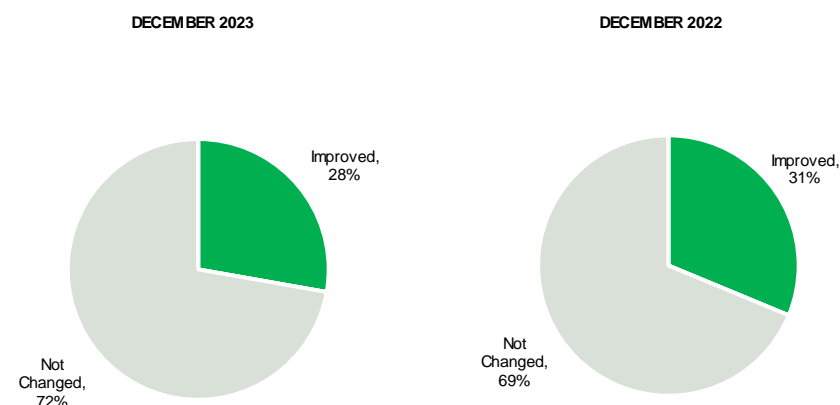


Source: Baird Research

Linen Rental: New Business (No-Programmers) Trends

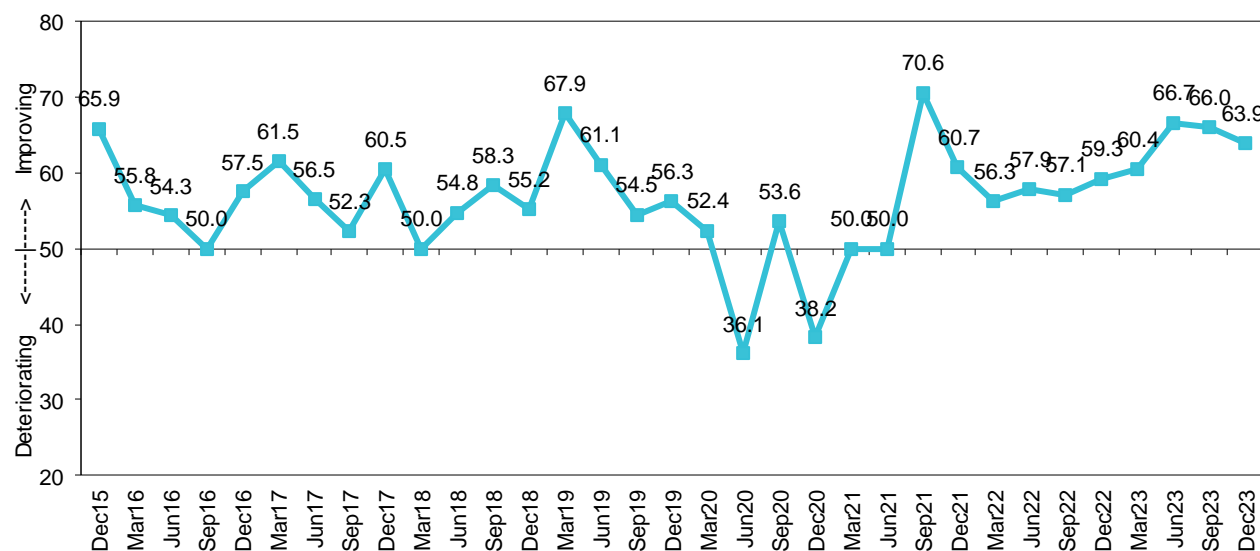
- No-Programmers.** No-programmer interest remained solidly positive at 63.9, little changed from 66.0 last quarter and remaining near record levels. The index has been in expansionary territory since dipping negative in 2020. See charts.

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

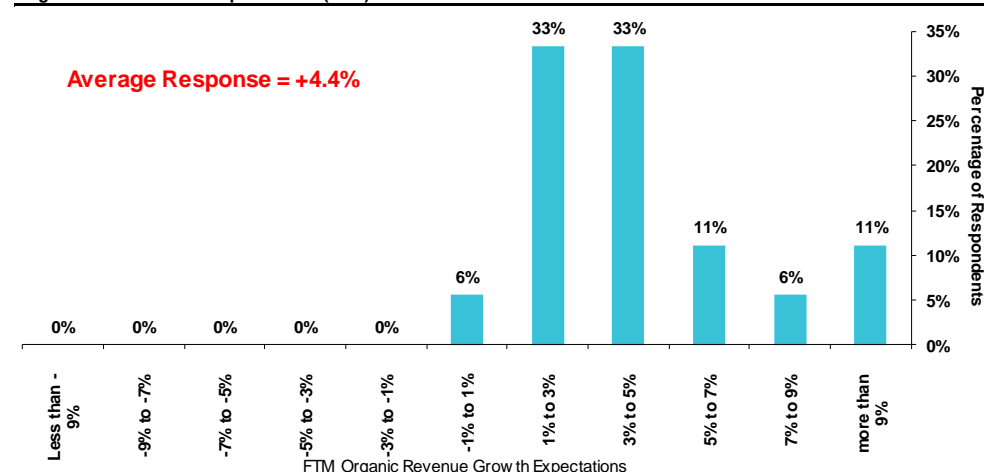


Source: Baird Research

Linen Rental: 12-Month Growth Outlook

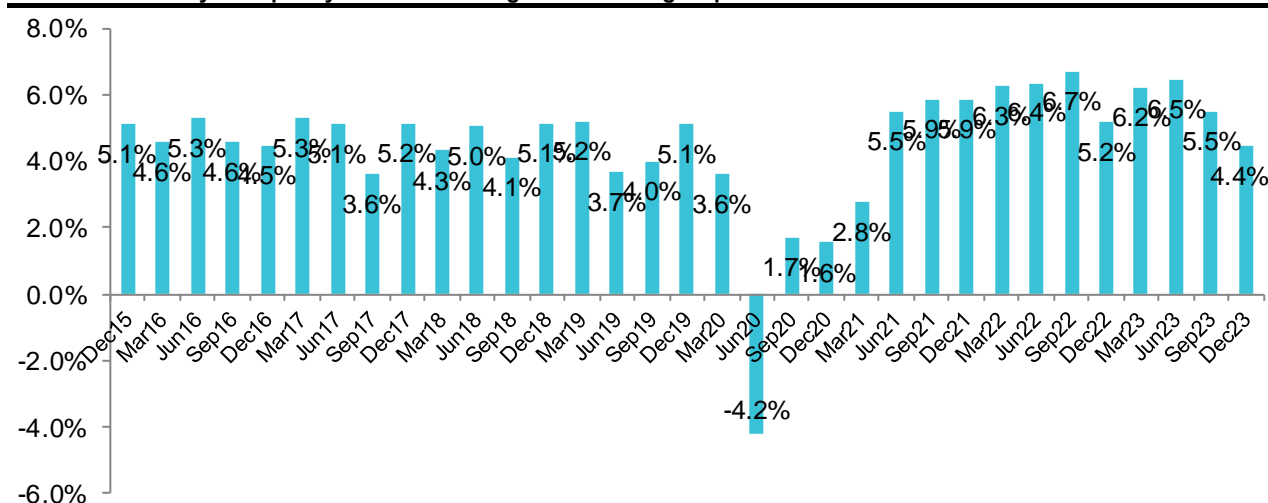
- Growth Outlook.** Forecasted 12-month revenue outlook moderated to 4.4% (from 5.5%) but is slightly above the outlook for uniform rental revenue growth rates. See charts.

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?"

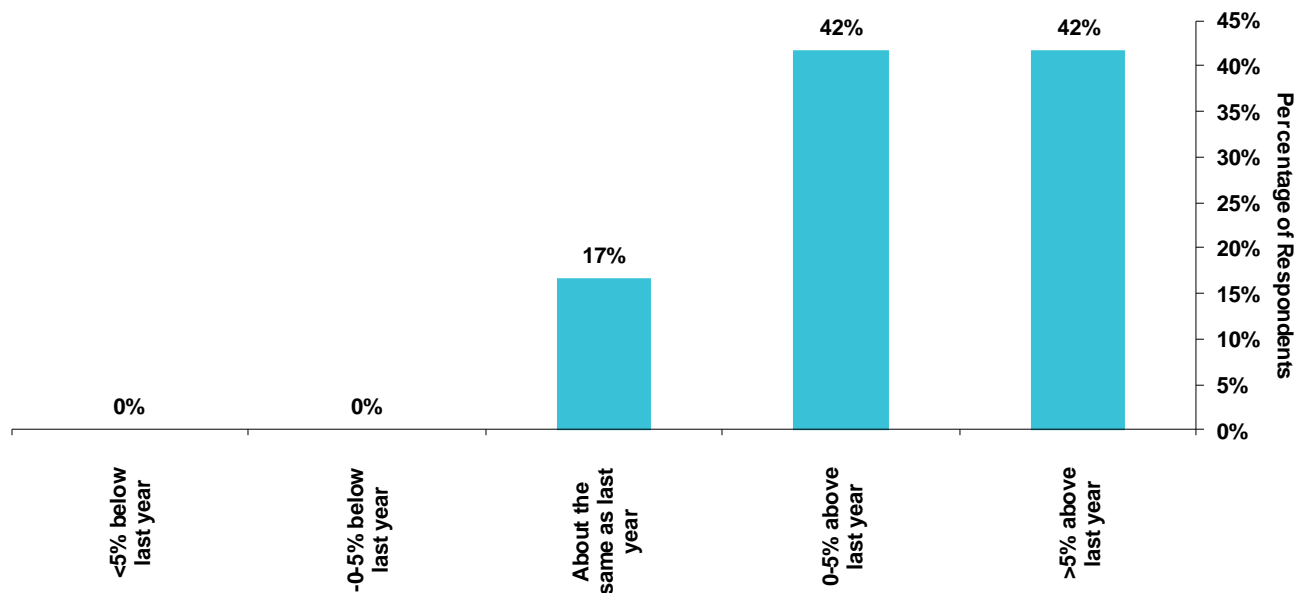


Source: Baird Research

NEW QUESTION: Healthcare Linen Operations

- **FOR YOUR HEALTHCARE LINEN PROCESSING AND OTHER RENTAL SERVICES BUSINESS (if any):** Which of the following best describes your rental revenue growth rate trend during the past 90 days versus last year's levels?

For healthcare linen: Rental revenue growth rate trend during the past 90 days versus last year's levels?



Source: Baird Research

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