

Deal Terms

1 [GK] = \$97.50 in cash

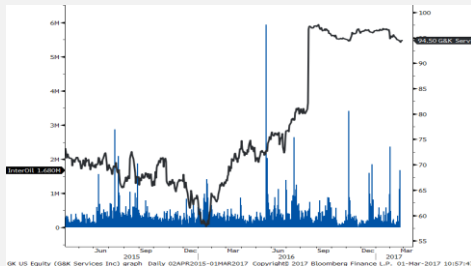
Target: G&K Services Inc.

Country	U.S.
Bloomberg	GK
Sector	Clothing
Share price (\$)	94.50
Market cap (\$m)	1,862
Free float (%)	~98

Acquirer: Cintas Corp.

Country	U.S.
Bloomberg	CTAS
Sector	Clothing
Share price (\$)	118.01
Market cap (\$m)	12,395
Free float (%)	~81

GK share price



Status

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G&K Services (GK) / Cintas (CTAS)

Merger

Based on our review of available RfPs, **we find several cases in which both G&K and Cintas have been invited to submit their proposals.** In some cases, we found that there were no other competitors in the bidding process (e.g. Cherokee Country, March 2012); however, in most of the cases, the two cos. also faced competition from other parties.

- As we stated in our previous report, we believe that regulators might scrutinize the transaction from the perspective of i) smaller players that operate regionally / locally, ii) large players that operate nationally.
 - In case of local/regional tenders (e.g. at a county-level), we believe that there is likely to be sufficient competition.
 - However, it seems that **there are only a limited number of players that have a nation-wide presence.** In tenders that have wider-than-local scope, “mom and pop” stores are unable to compete with large players:
 - According to available data, Cintas is the largest provider in the U.S. “uniform rental market”; Cintas currently has approximately 430 locations.
 - According to available data (2015), Cintas had a market share of ~25% followed by Aramark (~9%), UniFirst (~8%), and G&K Services (~6%). Based on our research, AmeriPride Linen & Uniform Service also appears to have a wider-than-regional presence.
 - From an antitrust perspective, we believe that the following aspects will also be considered by antitrust authorities:
 - National accounts customers are likely to have significant buyers’ power** – these buyers (e.g. transportation companies, hotels, etc.) are usually large companies that might have leverage in negotiations.
 - Also, we note that a **sizeable part of the market** (it is estimated at around \$4 billion - \$5 billion) **is unvended**; however, cos. that currently use a vended service might not be open to considering having the service done in-house.
 - In addition, it might be argued that customers might opt to de-fragment the contracts; however, we believe that this is unlikely to be an option for them – large customers are likely to prefer to contract with a single supplier that can meet their demands in all of the locations as i) a nation-wide arrangement might allow customers to receive volume-based discounts, ii) customers might save on procurement costs & contract management costs.
 - In terms of barriers to entry, merging parties might argue that barriers to entry (to the market) are low given: i) there is limited know-how required to provide the service, ii) capital requirements might be manageable.
 - Overall, we believe that there is **little potential for technological advancement of the industry.** We note that some companies have introduced chip scanning systems that scan and track the uniforms; but ultimately, we believe that there is very limited potential for technological advancement.
 - From that perspective, we believe that little potential for technological advancement of the industry limits ability for innovative entry.
 - We believe that it is a homogenous market**; we cannot envisage any major differences between companies (in terms of the service) and effectively competition among the service providers takes place on price level. Ultimately, it is geographic scope that differentiates the companies.
 - It seems that there are limited switching costs; we note companies conduct tender processes every 3 to 5 years, while we believe that switching costs do not hinder companies from changing suppliers.

Overall, we believe that it looks attractive on an upside/downside play to go short on the deal, but ultimately **we believe that the deal will receive necessary approvals.**

- In terms of divestitures, we believe that merging parties will be required to divest assets in areas where the merger would result in no or limited supplier choice (on a local level).
 - It might be the case that antitrust authorities might require the cos. to divest assets to one single player, that might act as a competitor to the merged party on a national level as well. We believe that potential assets buyers include UniFirst, Ameripride, and potentially others.
 - We believe that the antitrust break fee is relatively high (\$100 million, or approximately \$5 per GK share); and it might be an additional incentive for CTAS to structure a divestiture package that is acceptable to antitrust authorities.

Antitrust analysis

Requests for Proposal

We have searched for public RfPs for “laundry and rental of work uniforms”.

- Customers conduct tender processes for the service or they hire procurement firms to conduct such tender processes.
 - Based on review of available RfPs, customers generally use the following criteria for evaluation: **i) qualification of the co., ii) performance/references, iii) environmental purchasing practice, iv) cost.** Companies might apply different weights to each criterion.
 - Most of the **contracts are long-term.**
 - Customers usually invite companies to submit proposals for a period of 3 – 5 years (sometimes a contract might include an option to be extended).
- The scope of work under the contracts usually includes laundry and rental of work uniforms, but might also include lease/rental of mops, mats, as well as carpet and tile cleaning and other related facility solutions.
 - Generally, rental services should include laundering and repairs of the uniforms.
 - However, companies might also consider options for rented uniforms to be cleaned by individual employees.

Requests for Proposal

Customer	Solicitation Process	Note
City of Palo Alto, March 2013	Received proposals: G&K Services, Cintas, Aramark, Mission Linen Supply.	G&K was evaluated and rated as the best at demonstrating the ability to meet the City's requirements.
Board of Education Harford County, March 2012	4 prospective Offerors attended, 2 proposal were submitted (G&K and Cintas).	G&K was found to offer the best value in terms of technical and price submissions.
Toronto Transit Commission, August 2006	6 cos. were invited, 3 cos. submitted proposals. G&K was selected for the supply of towels, and Cintas was selected for maintenance of work clothing. Other bidder was Canadian Linen & Uniform Service.	Cos. could bid on either one or both of the requirements of the RfP. G&K submitted the lowest price for the supply of towels. Cintas submitted the lowest price for maintenance of work clothing.
City of Chandler, August 2009	RfP responses were received from: UniFrist Corp., Ameripride, Aramark, Cintas, G&K, Mission Linen & Uniform Supply.	UniForm was awarded the contract.
Greenbelt Homes Inc., March 2011	8 vendors were invited, 6 submitted bids (UniFirst Corp., Ace Uniform, G&K, Domestic Uniforms, Aramark Uniform, Cintas). G&K was awarded the contract.	Staff interviewed G&K sales representatives to investigate the particulars of their service, and staff also checked references for the company.
Sarpy County, September 2010	Staff reviewed uniform bids from G&K, Cintas, Paramount Linen & Uniforms, and Max I. Walker Uniform Rental.	Max I Walker was awarded the contract. Review committee states that the co. is the low bidder, and it is the current uniform rental vender and they had provided good service.
Cherokee County, March 2012	Proposals were received from two suppliers: i) Cintas, ii) G&K Services.	Contract was awarded to Cintas - the most responsive, responsible bidder.
City of Richmond, September 2007	Contracts were received from AmenPride Uniform Services, Aramark, and UniFirst.	AmeriPride was recommended because of the lower price and also because it had a chip scanning system that scans and tracks the uniforms. Later, the contract was cancelled (due to non-compliance) and awarded to Aramark.
City of Troy, October 2012	Cos. received following scores based on pricing and site visit selection criteria: UniFirst (166.90), Cintas (164.74), Arrow (152.35), Aramark (141.85).	UniFirst Corp. received the highest score based on the evaluation of both the City of Troy and Oakland County.
Port Authority Transit Corp., March 2011	Bids were received from UniFirst, Aramark, Best Uniform Rental, G&K, American Wear.	UniFirst, which submitted the lowest bid, was agreed to provide their service for one additional year.
City of Savannah, March 2016	Bids were received from Cintas, UniFrist, and Aramark. Cintas was awarded the contract.	Proposals were received and evaluated on the basis of qualifications and experience, search approach, references, local vendor participation, and fees.
National Joint Powers Alliance, January 2011	Bids were received from UniFirst and Aramark. UniFirst was awarded the contract.	RfP were requested and distributed to approximately 20 parties. The bids were received only from UniFirst and Aramark.
City of Chandler, August 2009	A total of 6 responses were received: UniFirst, Ameripride, Aramark, Cintas, G&K, and Mission Linen & Uniform Supply.	Staff recommended to enter into a contract with UniFirst for two years, with option to renew for three additional one-year periods.

Yorba Linda Water District, December 2016	Following vendors responded to RfP: Prudential Uniform, UniFirst, Mission Linen Services, and Aramark. Aramark got a contract extension.	Staff evaluates that Aramark has been responsive to their needs and also it remains the low cost supplier.
Solid Waste Authority of Central Ohio, December 2014	2 bids were received and evaluated by SWACO staff (Aramark and UniFirst). Aramark was awarded a contract.	Aramark is deemed the lowest and best responsive bidder to supply the services.
Port of Oakland, April 2012	RfP was directly emailed to 12 local suppliers. A total of six firms attended the pre-proposal meeting and three firms submitted bids (Aramark, Mission Linen Supply, and UniFirst).	It was advised to enter into a contract with Aramark.
City of Palm Deserts, January 2015	Staff received three proposals (UniFirst, Prudential Overall, and Cintas). UniFirst was awarded the contract.	Reviewing the terms of the lease agreement, staff had determined that terms of the lease agreement are reasonable.
Pinellas Suncoast Transit Authority, July 2015	As a result of solicitation, 5 suppliers responded to the RfP - Cintas, Design Lab, NAFECO, and SingleSource (purchase uniforms), and Cintas, UniFirst (rental uniforms).	Staff recommended approval of a contract with NAFECO for uniform purchase, and a contract with UniFirst for uniform rental and supplies.
Hampton Road Transit, August 2012	Three proposals were submitted: Domestic Linens, UniFirst Corp., and Cintas.	Cintas was not the lowest priced offer. Domestic Linens, the incumbent provider, offered the lowest price. However, their proposal and samples provided did not meet the new more stringent safety requirements included in this solicitation for uniforms.

Source: Chain Bridge Research

CBR view

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 - In the case of local/regional tenders (e.g. on county-level), we believe that there is likely to be sufficient competition:
 - Apart from players that have a nation-wide presence, there are ~400 – 500 smaller companies that have a smaller geographic scope.
 - In the case of local tenders, we believe that antitrust authorities are unlikely to be concerned that the proposed transaction might have anti-competitive effects.
 - Players which do not have a nation-wide presence (e.g. Mission Linen & Uniform Service, etc.), also participate in local tenders within their geographic scope; and we believe that these companies are also a competitive constraint to merging parties.
 - However, it seems that **there is only a limited number of players that have nation-wide presence**. In tenders that have wider-than-local scope, “mom and pop” stores are unable to compete with large players:
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Company description

G&K Services

G&K Services is a service-focused provider of branded uniform and facility services programs. The company provides a wide range of work-wear and protective safety apparel through rental and direct purchase programs. The co. also supplies a variety of facility products and services, including floor mats, towels, mops, restroom hygiene products, and first aid supplies.

- The co. serves approximately 170,000 customer locations.
 - It serves customers in virtually all industries, including automotive, warehousing, distribution, transportation, energy, manufacturing, food processing, pharmaceutical, retail, restaurants, hospitality, government, healthcare and others.
 - Over 1 million people within G&K's customer base wear G&K work apparel every work day.
 - G&K's relationship with customers involves customers renting or directly purchasing uniforms and providing facility products and services to meet a variety of critical needs in the workplace, including:
 - i) image: work apparel helps companies project a professional image through their employees and frame the perception of credibility, knowledge, trust and quality to their customers;
 - ii) safety and security: protective work apparel helps protect employees from difficult environments, such as heavy soils, heat, flame or chemicals;
 - iii) workplace cleanliness and hygiene: facility services products, such as floor mats, towels, mops, and restroom supplies, help ensure a clean, well-maintained facility which is safer for employees;
 - iv) product protection, etc.

Geographic breakdown

FY16	\$m	%
Total	978.0	100.0%
United States	842.4	86.1%
Canada	135.7	13.9%

Source: Chain Bridge Research, Bloomberg

Cintas Corp.

Cintas Corp. provides highly specialized products and services to businesses of all types primarily throughout North Americas, as well as Latin America, Europe and Asia.

Revenue breakdown

FY16	\$m	%
Total	4,905.0	100.0%
Rental Uniforms and Ancillary Products	3,777.8	77.0%
First Aid, Safety and Fire Protection Services	461.8	13.6%
Other Services	665.9	23.0%

Source: Chain Bridge Research, Bloomberg

- **The Rental and Uniforms and Ancillary Products** consists of the rental and servicing of uniforms and other garments including flame resistant clothing, mats, mops and shop towels and other ancillary items.
 - In addition to these rental items, restroom cleaning services and supplies and carpet and tile cleaning services are also provided within this segment.
- **The First Aid, Safety and Fire Protection Services** segment consists of first aid, safety and fire protection products and services.

- We note that the co. additionally provides other services, e.g. uniform direct sales, etc.

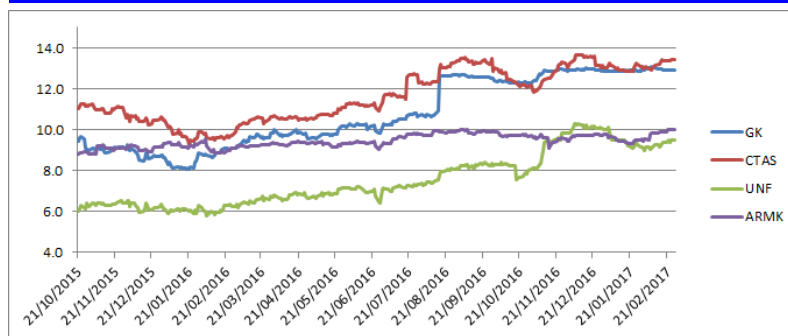
Valuation

Peer valuation

Company	Ticker	Price	Market cap	EV	FY1 EV/EBITDA	FY2 EV/EBITDA	FY1 EV/Sales	FY2 EV/Sales	FY2/FY1 EBITDA	FY2/FY1 Sales	FY1 EBITDA margin
G&K Services	GK US	\$94.45	\$1,862	\$2,048	12.9x	11.8x	2.1x	2.0x	9.8%	3.2%	16.2%
Cintas	CTAS US	\$119.07	\$12,507	\$13,474	13.4x	12.4x	2.6x	2.4x	8.0%	6.9%	19.3%
Unifirst	UNF US	\$132.20	\$2,681	\$2,395	9.5x	8.8x	1.5x	1.5x	7.3%	3.1%	16.2%
Aramark	ARMK US	\$35.81	\$8,820	\$14,085	10.0x	9.4x	1.0x	0.9x	6.1%	3.5%	9.6%
mean					11.0x	10.2x					
median					10.0x	9.4x					

Source: Chain Bridge Research, Bloomberg

Peer valuation (EV/EBITDA multiples)



Source: Chain Bridge Research, Bloomberg

Assuming i) 10.5x – 11.0x 2017E EBITDA, ii) the debt position as at FY16, we estimate **G&K's standalone value to be in the range ~\$74 - \$78 per GK share.**

- Adjusting for a break fee of \$100 million, we estimate the downside to be \$79 - \$83 per GK share in case of a deal break.

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