

Client logo

JanSan Supplier Industry Primer

March 2015

Executive Summary

Market Size and Nature	Mature market of \$18bn. Low barriers to entry and a highly fragmented market result in intense competition with the top 4 players commanding ~25% of the US market share
Favorable Demand Drivers	Demand is primarily driven by economic activities, growth in disposable income, industrial activities and sale of automobiles. All these point to a favorable opportunity coupled with falling crude oil prices
Key Players	Clorox, Church and Dwight, Zep, Ecolab, WD-40, and Swisher Hygiene
Revenue Growth	The impact of recession was moderate on the industry. Large players demonstrated single digit growth rates in 2009 and have maintained a consistent growth trajectory
EBITDA Margin	Economies of scale play a key role. Large players demonstrate 20% + margin, whereas small players are operating at low single digits
Valuation	Recession resistant performance. However, the industry is currently trading near the high end of its range

Market Size

Mature market of \$18bn is primarily driven by JanSan services, institutional and transportation

\$75bn



\$18bn



Transportation

\$4.8bn



Industrial / MRO & Other

\$2.7bn



JanSan Services & Institutional

\$10.6bn



Low barriers to entry and a highly fragmented market result in intense competition with the top 4 players commanding ~25% of the US market share

Industry Drivers

Per Capita Disposable Income

Disposable income directly affects the quality of sanitation and janitorial supplies the consumers purchase. The disposable income has registered a long term growth average of 5%

World Price of Crude Oil

Several key raw materials are derived from petrochemical feedstock. Volatility of world oil prices can impact the industry bottom-line

Demand from Accommodation and Food Services

Hotels and restaurants are major commercial markets for the industry. These companies use cleaning products in large quantities to meet regulation requirements and customer preferences for cleanliness

Demand from Transportation Sector

Demand driven by such factors as new-vehicle production, gas prices, miles driven and average vehicle age. Growth of vehicle sales in the US has outpaced economic, wage and housing growth rates in 2014

Industrial Demand

Demand driven by industrial production and employment. Industrial production increased by 4.8% in January 2015, which has been on an upward trajectory

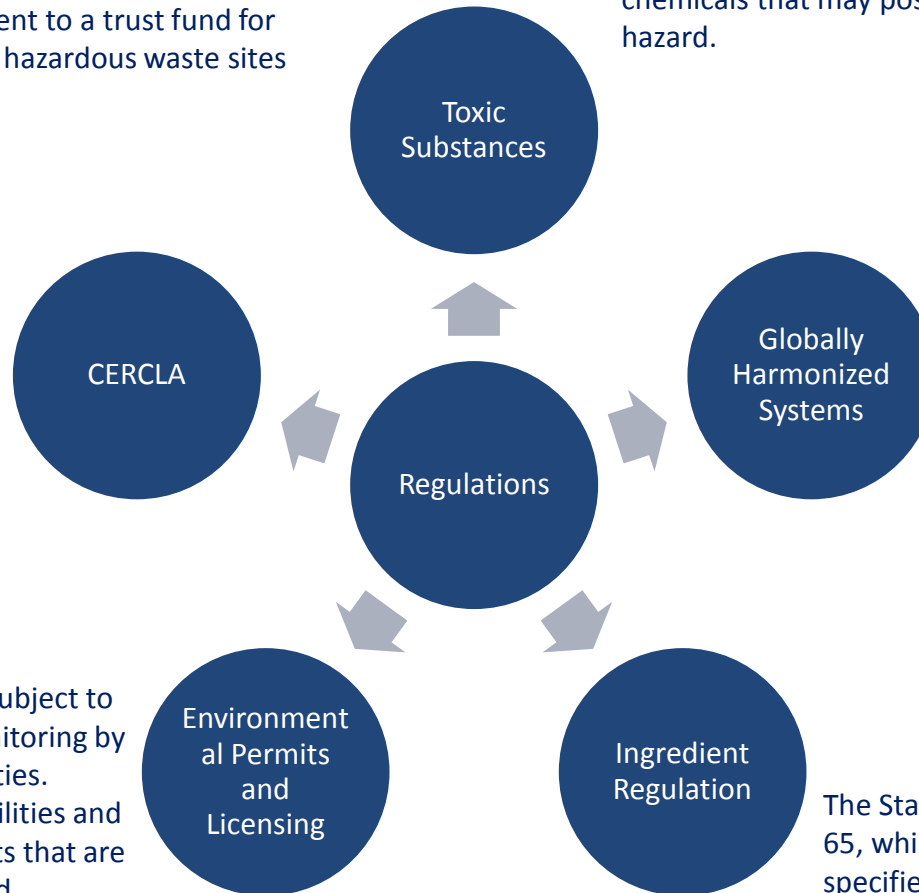
Demand from Janitorial Services

Janitorial companies use cleaning products, such as polishes, waxes and other sanitation goods, to provide their services. Janitorial services demand is expected to increase

Stringent Regulatory Environment

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), commonly known as Superfund, was enacted by Congress on December 11, 1980. Over five years, \$1.6 billion was collected and the tax went to a trust fund for cleaning up abandoned or uncontrolled hazardous waste sites

The Toxic Substances Control Act gives the US Environmental Protection Agency the authority to track, test and/or ban chemicals that may pose an environmental or human-health hazard.



The US Occupational Safety and Health Administration ("OSHA") updated the Hazard Communication Standard by adopting the GHS standards, in 2012. Employers were required to train associates on the new label elements and SDS format by December 1, 2013, which the Company completed. All companies must update labels and provide compliant SDSs by June 1, 2015, except distributors may ship products labeled by manufacturers under the old system until December 1, 2015

In the industry, the businesses are subject to environmental inspections and monitoring by governmental enforcement authorities. Production facilities, warehouse facilities and operations require operating permits that are subject to renewal, modification and Revocation.

The State of California has enacted Proposition 65, which requires companies to disclose specified listed chemical ingredients on the labels of products. Due to similar legislations companies might be required to disclose the proprietary product formulations

Key Players



Market Cap - \$14bn

Revenue - \$5.6bn⁽¹⁾

EBITDA - \$1.2bn⁽¹⁾

- It offers laundry products, including bleach products and stain fighter, color booster products, naturally derived home care products and cleaning and disinfecting products
- The company also offers plastic bags, wraps, containers, cat litter products and charcoal products. In addition, the company provides dressings and sauces, water-filtration systems and natural personal care products
- The Clorox Company was founded in 1913 and is headquartered in Oakland, California.



Market Cap - \$11bn

Revenue - \$3.3 bn⁽¹⁾

EBITDA - \$732mm⁽¹⁾

- It develops, manufactures, and markets household, personal care, and specialty products in the USA. (100% in-house manufacturing)
- It offers household products, such as baking soda, clumping cat litters, washing soda, fabric softeners, daily shower cleaners, cleaning products, dishwashing detergents and boosters, etc
- It also offers specialty chemicals, such as performance grade sodium bicarbonate, and potassium carbonate and bicarbonate, etc. It also provides specialty cleaners, such as aqueous cleaners and deodorizers for commercial and industrial applications
- It was founded in 1846 and is headquartered in Ewing, New Jersey and operates in international markets such as Canada, France, Australia, China, the United Kingdom, Mexico, and Brazil



Market Cap - \$373mm

Revenue - \$696mm⁽¹⁾

EBITDA - \$55mm⁽¹⁾

- Zep Inc. produces and markets cleaning and maintenance chemicals, and related products and services for the commercial, industrial, and institutional markets in North America and Europe
- It offers anti-bacterial and industrial hand care products, cleaners, degreasers, deodorizers, disinfectants, floor finishes, sanitizers, pest- and weed-control products, air-care products and delivery systems, and various automotive maintenance chemicals, as well as equipment repair and maintenance products
- Zep Inc. was founded in 1937 and is based in Atlanta, Georgia
- The company outsources manufacturing of 30% of its sales volume

Key Players



Market Cap - \$34bn

Revenue - \$4.3bn⁽¹⁾

EBIT - \$821mm⁽¹⁾

- Ecolab Inc. provides water, hygiene, and energy technologies and services for customers worldwide. The company operates in four segments: Global Industrial, Global Institutional, Global Energy, and Other
- The **Global Institutional segment** provides specialized cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government and education and retail industries



Market Cap - \$1.2bn

Revenue - \$383mm⁽²⁾

EBITDA - \$69.6mm⁽²⁾

- The company sells two class of products: multi-purpose maintenance products; homeware and cleaning products
- The company brands include : WD-40®, 3-IN-ONE®, X-14®, 2000 Flushes®, Carpet Fresh®, no vac®, Spot Shot®, 1001®, Lava® and Solvol®
- The company outsources 100% of manufacturing of its finished products



Market Cap - \$373mm⁽²⁾

Revenue - \$198mm⁽²⁾

EBITDA - (\$122)mm

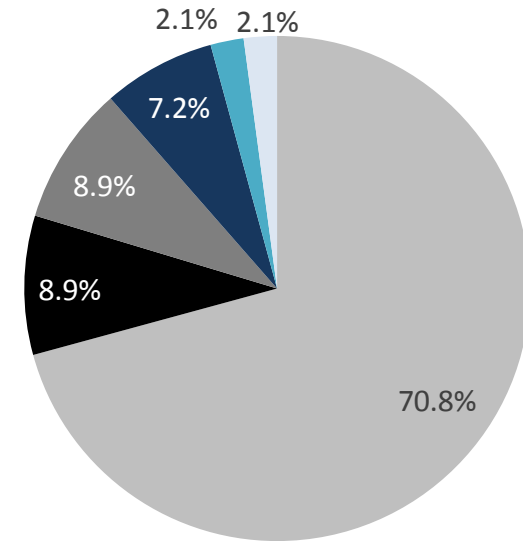
- The company provides hygiene and sanitation solutions
- Range of solutions include cleaning and sanitizing chemicals and restroom hygiene programs, as well as a range of related products and services
- The company manufactures and sells consumable products comprising detergents, cleaning chemicals, soaps, papers, water filters, and supplies, as well as rents and services dish machines and other equipment for the dispensing of these products; and offers cleaning services
- The company was incorporated in 1986 and is headquartered in Charlotte, North Carolina

Distribution Network

Overview⁽²⁾

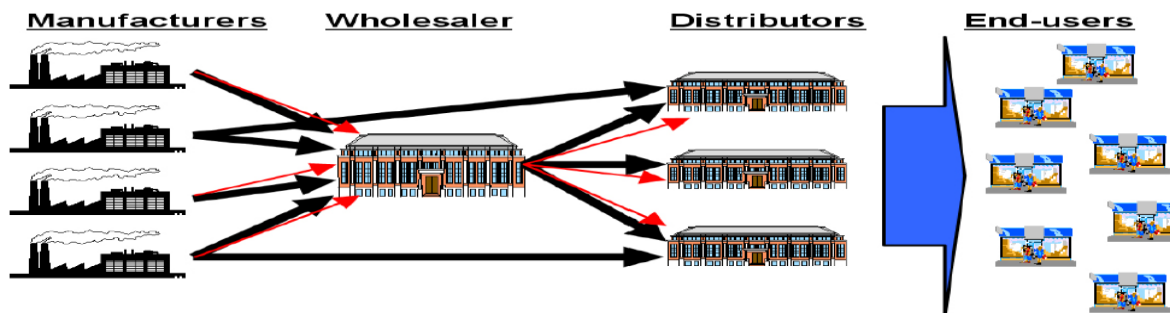
- The distribution network is characterized by wholesale redistribution:
 - The intermediate wholesalers help distributors reduce costs and build volumes
 - The manufacturer reduces the logistics cost and softer Order Management costs
- They also help the distributors manage inventory turns and reduce the order cycle for small volume products
- Since 2000s with the advent of e-commerce, the JanSan distribution industry has seen severe downturn and was characterized by fast paced consolidation
- Subsequently, the stronger distributors expanded their range of services and such as work loading, enhanced product selection, product access, streamline purchasing, online sales etc.
- While consolidation in the industry is expected to continue, the distributors are expected to become increasingly valuable partners for the JanSan industry

Traditional distributors command majority share⁽¹⁾



- Traditional Jan San Distributors
- Industrial & Safety Distributors
- Foodservice Distributors
- Nationals & E-Tailers
- Independents
- General Retail (inc Club Stores)

The Jan-San Supply Chain WITH Wholesaler Redistribution



Distribution – Case Study Swisher Hygiene

They market and sell products and services primarily through: (i) field sales group, (ii) corporate account sales team, and (iii) independent third-party distributor partners

The Field Selling Organization

- Comprised of Business Development Representatives, Account Managers and Hygiene Specialists
- The BD representatives strategically identify new customer opportunities that leverage current route service and delivery efficiencies and focus on accounts with distributor partner representatives
- Account Managers are primarily focused on servicing and expanding sales to current customers however they will also be responsible for obtaining new customer sales as they move into the next fiscal
- Hygiene Specialists focus on current customers with the purpose of expanding the number of products and services provided by leveraging solid business relationships

Corporate Accounts

- Selling to new corporate accounts is led by a team that manages a longer sales process that includes either **displacing an existing supplier of the products and services or working with the customer to centralize and consolidate disparate purchasing decisions**
- The prospective customers run a vendor qualification process to test ability to deliver at a regional level
- Large corporate accounts may operate via a franchise network of their own; the selection process with such corporate accounts may only result in a vendor qualification allowing them the right to sell their products and services to their franchisees
- Vendor qualification process range from **three months to over 12 months**

Distributors

- In recent years the company has expanded its distribution program
- Distributor program is targeted toward regional and local foodservice distributors that are seeking to increase the revenue and margin they can drive by increasing product offering to each customer, which also helps their distributor partner reduce their customer attrition
- Foodservice distribution is a highly competitive business operating on low margins. As such, the distributor can typically earn a higher profit margin on the chemicals compared to its food items
- They contract with distributors on an exclusive or non-exclusive basis, depending on the markets they serve and the size of their customer base

Distribution Network

Industry players use a variety mediums to sell and market their products including direct sales, e-commerce, retail, etc.



It sells its products primarily through mass retail outlets, e-commerce channels, distributors, and medical supply providers



It sells its products through supermarkets, mass merchandisers, wholesale clubs, drugstores, convenience stores, home stores, dollar and pet stores, and other specialty stores, as well as through Websites.



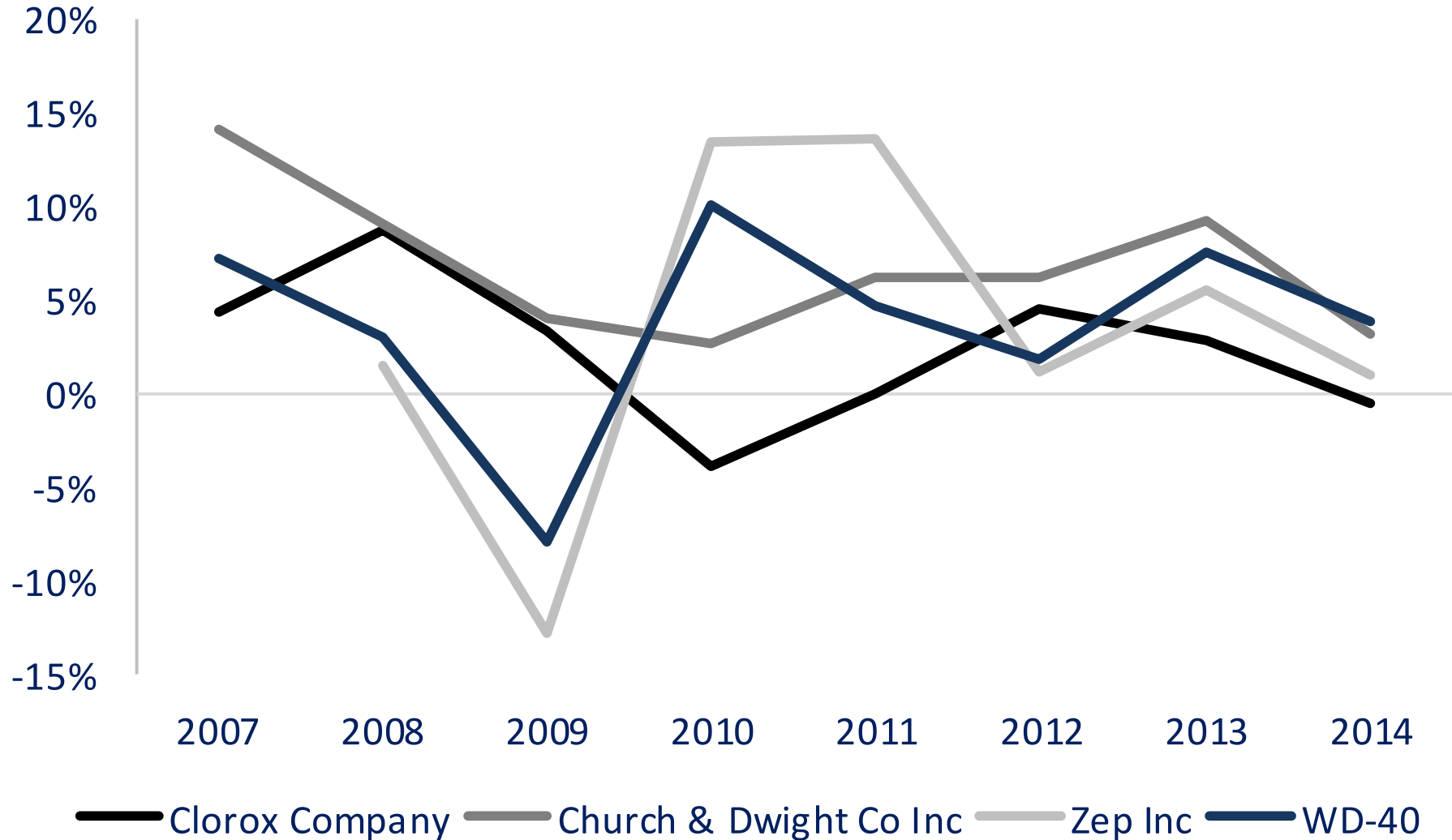
It sells its products to national and regional business-to-business distributors that target the relevant markets, as well as to home improvement stores and automotive after-market retailers

Top Distributors



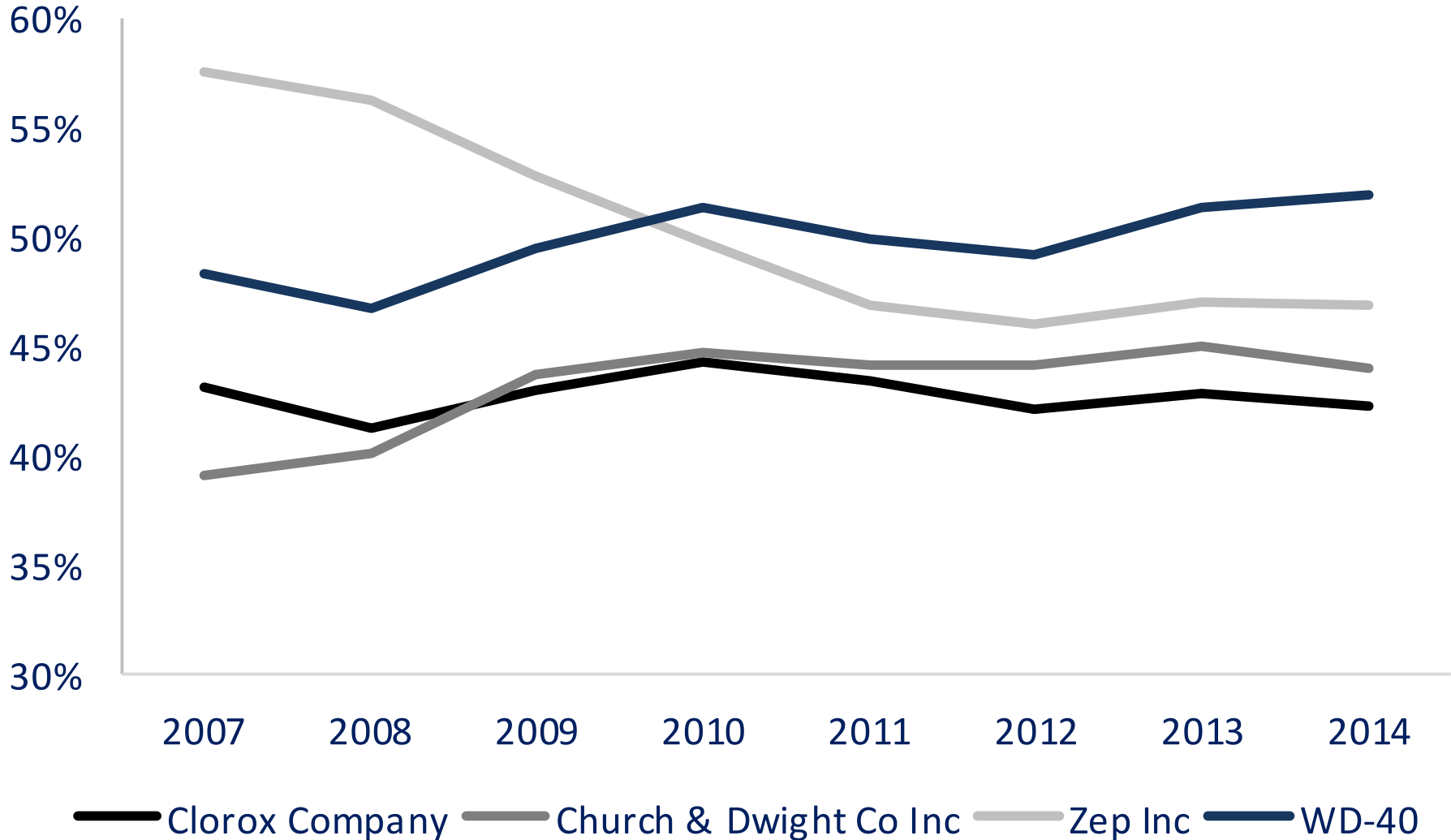
Revenue Growth

The impact of recession was moderate on the industry. Large players demonstrated single digit growth rates in 2009 and have maintained a consistent growth trajectory



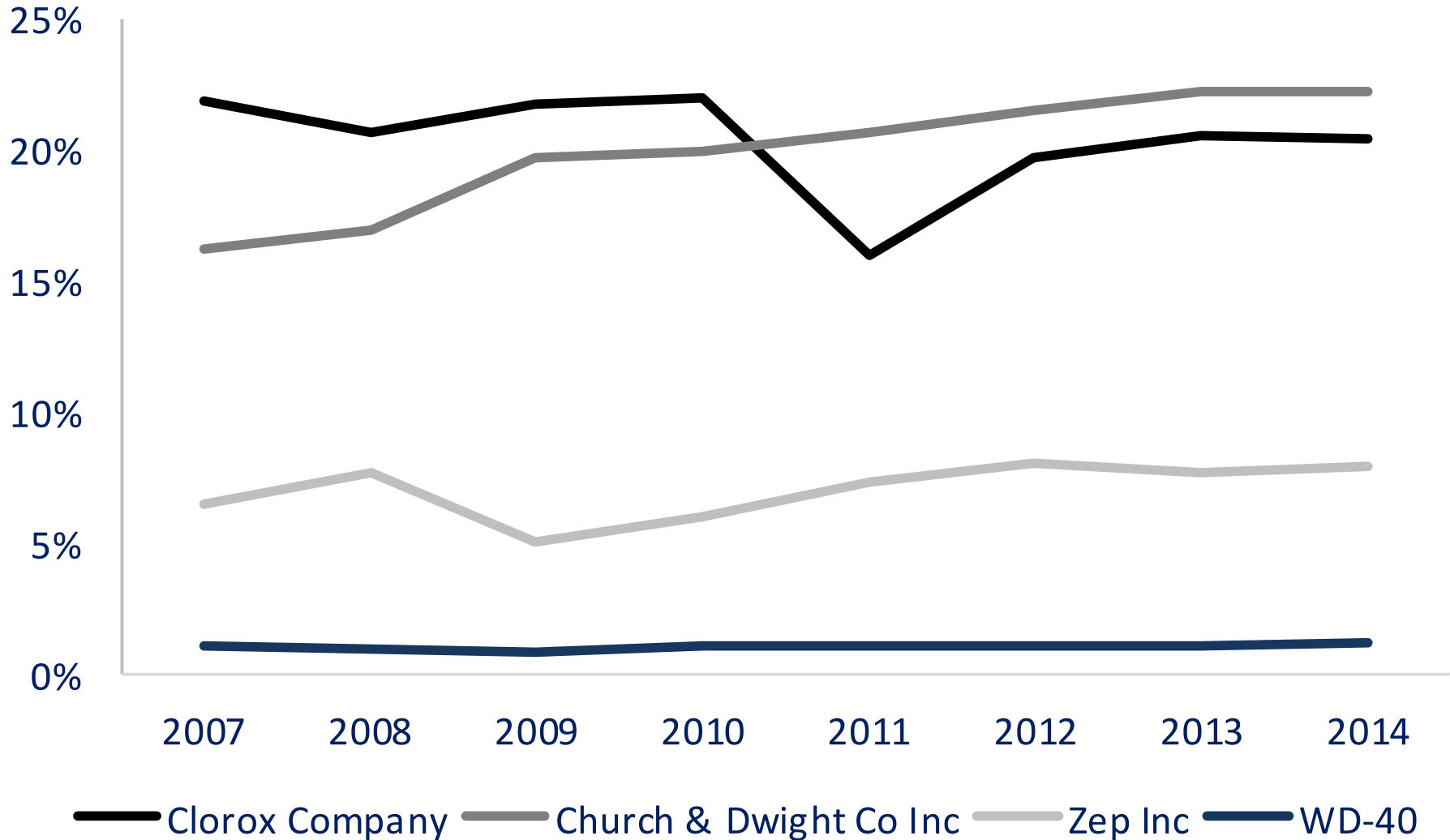
Gross Margin

Fairly consistent margin trend across the sector during all periods. WD which outsources 100% of its manufacturing has 50% + margin



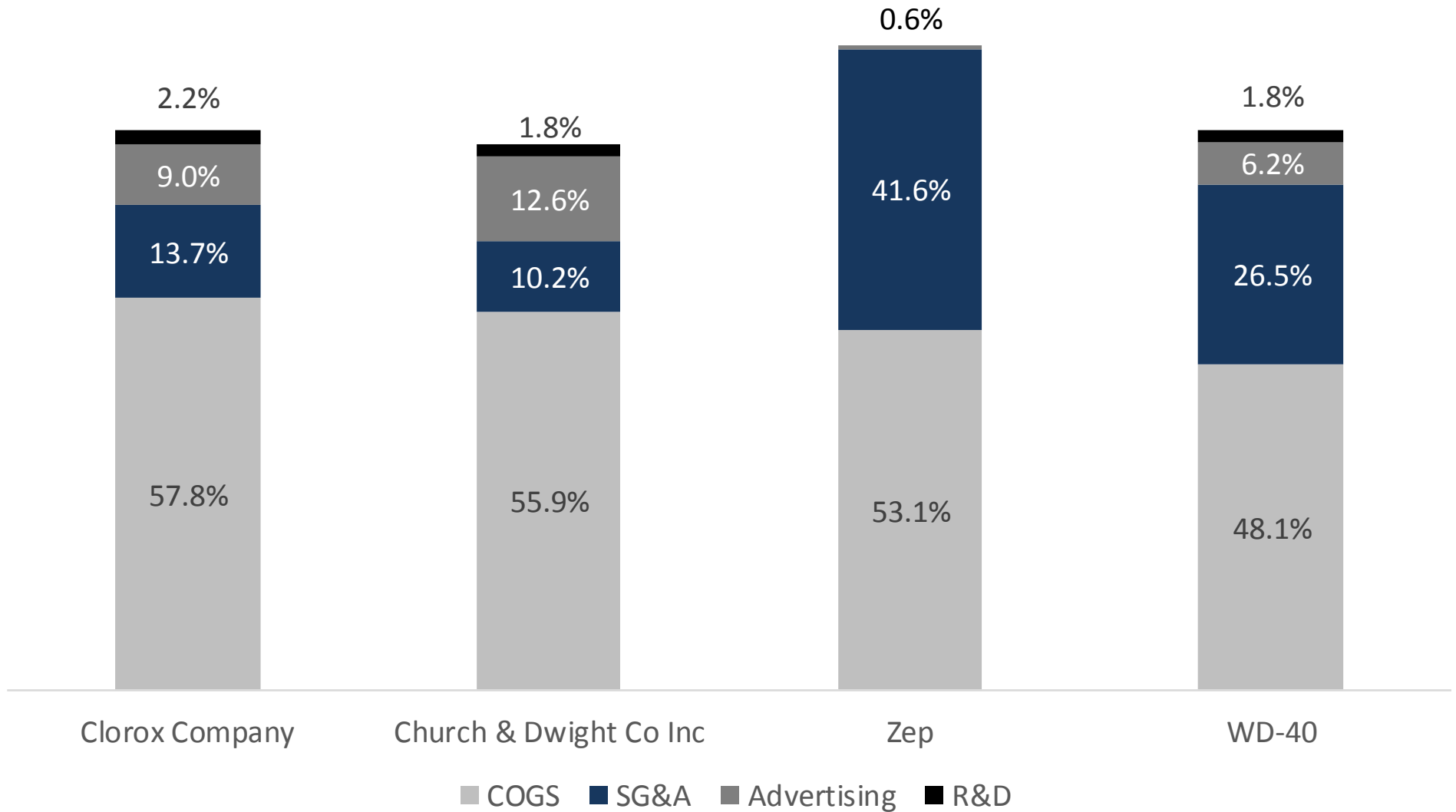
EBITDA Margin

Economies of scale play a key role. Large players demonstrate 20% + margin, whereas small players are operating at low single digits



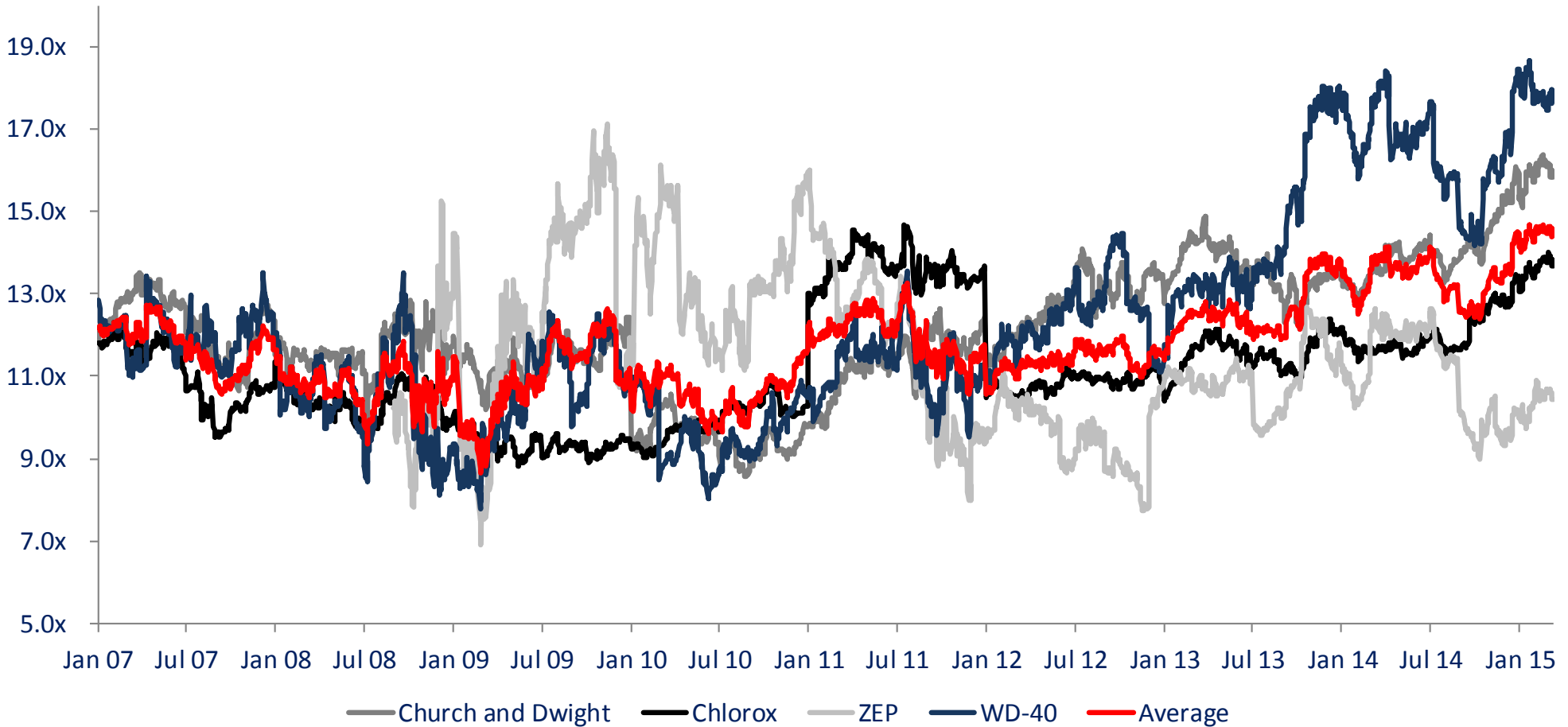
Cost Structure as % of Revenue

Absorption of G&A costs play the most critical role as the operations scale. Large companies spend significant dollars on advertising



Valuation: EV / EBITDA

Recession resistant performance. However, the industry is currently trading near the high end of its range



Brands



Brands

