

JLA/WASHSTATION MERGER INQUIRY

Summary of hearing with A. Copley on 30 May 2018 at 1pm – 2:30pm

Background and history of Washstation's business

1. Alistair Copley (AC) explained that he founded a company called Circuit Launderette Services which was active in managed laundry services and was acquired by JLA in 2002. In 2012, AC re-entered the laundry market with Washstation and because of his earlier involvement in Circuit, he knew how to set up a business in this sector. In the first year of Washstation, AC investigated whether there still were market opportunities and he talked to many people in the higher education (HE) sector and campsite and hostels sector.
2. AC explained that besides Circuit, there was no real competition in these sectors, so he decided to go ahead with Washstation.
3. Washstation started with one account employee, one engineer, one sales manager (AC) and one telesales employee. In the first year of operation, Washstation won around 7-8 contracts and while growing, gradually expanded its employees to be able to serve more customers.
4. In order to start the Washstation business, AC also needed to have funds in place and he funded the business himself [£]. That amount was necessary to pay upfront for the machines to be installed, the installation costs and the refurbishment costs.
5. AC decided to use Maytag machines offered by a firm called Whirlpool, who knew AC from the past. JLA was the distributor for Maytag machines at that time, but were mainly using Alliance machines (JLA98) instead. Whirlpool was happy for AC to sell Maytags in the UK (AC is still the distributor for Maytags). For a short period in the beginning, before the contract with Whirlpool, AC purchased Maytag machines from JLA.
6. AC said that he also needed the right vending system for managed laundry services. In the Circuit days, coin collection was the most burdensome part of the managed laundry business. AC saw a card payment system in the US from a company called Greenwald and introduced this in the UK.
7. As most potential customers were tied in with long contracts to JLA, with contract periods of 8-10 years, Washstation had also to find a strategy to find out about upcoming opportunities. Washstation contacted many people to

gather information and subscribed to in-tend, a portal for universities that wish to go to tender, which would notify Washstation of upcoming tenders.

8. AC estimated that Washstation won around [X] contracts in the period of 2012 until the acquisition of Washstation by JLA in 2017 (the merger).
9. At the date of the merger between Washstation and JLA (the merger), Washstation had an accounts department, engineers, a portfolio of suitable machines, seven engineers and this was sufficient to service all of its customers because those engineers were only serving Washstation sites. Washstation did not need to use independent contractors.

Industry background

10. AC explained that the HE sector differs from other sectors because it has specific requirements related to number of end-users, refurbishment and the overall student experience. The refurbishment of student laundry rooms covers the whole room and can include a TV, seating, etc. Washstation would do minor refurbishments each year to keep the room up to standard, while camp site laundry rooms usually look tired and require significantly less investment. AC said that students are more demanding and want value for their money.
11. AC also stated that HE customers mainly use managed laundry services. In most cases, vend sharing agreements (ie where the supplier owns and repairs the machines and the revenue is split between the supplier and the HE customer) better suit these customers, because it means that they do not have to incur on any costs. This has not really changed over time.
12. AC said that the key element in this industry is the right service and AC explained that some HE customers were more commission-driven than others (ie those customers placed more weight on the percentage of revenue that they would receive from the supplier).
13. AC also noted that the vend price (i.e. the price paid by the student) is an important factor in the offer and that it was decided by the university and Washstation jointly. Increases of the vend price were decided on after review each year and in discussion with the customer.

Washstation's offer

14. When preparing an offer to a particular HE customer, Washstation looked at the number of students and, estimated the number of stacks required based on a particular number of students per stack. A stack consists of one washing machine and one tumble dryer. The level of commission to be paid to the HE customer would also depend on the refurbishment required, the vend price, the degree of promotions, and the size of the customer.
15. Washstation offered good commission levels in the beginning to convince customers to change supplier. The level could vary between [X]% to [X]%. AC roughly estimated that the blended commission of Washstation was [X]%.

AC said that the commissions offered by Washstation were sustainable. There was an expectation that the customers would renew the contract with Washstation. Washstation might have lost some tenders to Circuit because it had not offered the same high commission as Circuit.

16. AC said that, generally and across the board, the commissions offered to HE customers had gone up slightly in the last years, but that the trend of increase in commission levels would have not continued indefinitely, because that would have threatened the viability of the business.
17. AC said that Washstation's selling strategy was on service and not on commission levels. Washstation's engineers used to visit the laundry rooms regularly to repair machines and prevent issues. Washstation also used to engage in promotional activities for the students, which were funded by Washstation, eg machines were cheaper for a certain period or laundry bags with goodies were given away for free. Washstation also offered a website which the students could use to log in and top up their cards. Washstation did not offer an app equivalent to Greenwall, but it was developing a similar app before the acquisition by JLA.
18. AC explained that, in the beginning, Washstation would win around [REDACTED]% of the tenders and when Washstation became more known in the sector, it would win more. In the later years Washstation was winning in estimate between [REDACTED] % of tenders. Washstation never lost a contract. Before the merger, Washstation would have [REDACTED] pockets installed (a pocket is equal to either a washing machine or tumble dryer) on the market.

The selection of machines

19. AC explained that the Maytag machines are reliable and designed for students. AC noted that there are other suppliers such Miele and Electrolux, but Maytag and Alliance machines are more suited for the managed laundry market, mainly because of their ease of use for the student, e.g. touch buttons, the display indicates how many minutes are left for the washing cycle to be finished; and the washer and tumble dryer can be stacked as one unit. Other manufacturers don't have the stacking systems. Maytag machines are also already set up for card use and can talk back to the managed laundry service supplier, i.e. the machines signals when it does not function. Maytag machines are more efficient (i.e. more ecologically friendly) than Alliance. The cost of a Maytag stack (washer and dryer) is roughly 2000 dollars.
20. AC [REDACTED], as he mainly purchased (and purchases) them to put them out into the HE sector. Since the merger, AC was approached by a small dealer ([REDACTED]), but the quantities purchased were so small that this purchase was probably not for the HE sector.
21. When asked whether it is possible for other laundry service suppliers to obtain machines directly from the OEM manufacturers, AC answered that a supplier would need to be prepared to buy a container of machines (around 80

machines) at one time. This discourages suppliers, as requires them to deal with the customs checks process and have sufficient storage.

The sale of Washstation to JLA

22. AC said that it was approached by JLA to sell Washstation and that Washstation was actually not for sale. The CEO of JLA mentioned to AC, at a worldwide Maytag conference in Tucson, Arizona in either 2014 or 2015, that JLA would be willing to buy Washstation but AC declined. Approximately in July 2016, AC received a phone call from the CEO of JLA, and they met outside HgCapital's office (JLA's major shareholder), where AC indicated that he may be interested. AC then received an offer by phone, but declined. Six weeks later, the CFO of JLA called again to offer a revised offer, which AC accepted, because JLA offered a fair price.
23. When AC received an offer from JLA, AC engaged an accountant, to assist him as a business strategist. Later they instructed [X] to conduct the sale of Washstation to JLA.
24. Before being approached by JLA, AC received initial inquiries from [X] and [X]. These companies decided not to pursue discussions further.
25. AC stated that, before the merger, Washstation had sufficient funding in place and that it had recently won two contracts from two large universities (the [X] and the [X]). AC also stated that Washstation had access to several funding sources: [X], and [X]. Washstation also had a good relationship with [X].
26. When asked about the statement that Washstation had not paid out a number of commissions to its customers, AC said that Washstation had never received complaints about it and that it was talking to its customers to change its payment terms from a monthly basis to a quarterly basis. The customers were happy with what Washstation offered.
27. When asked about JLA's rationale to purchase Washstation, AC assumed that the rationale for JLA probably was that Washstation represented competition that was hurting JLA.

Current state of the higher education sector

28. When asked about his impressions on the competition for the supply of managed laundry services to HE customers after the merger, AC explained that he could not identify any supplier able to 'push forward'. AC stated that it is very important to know the HE sector to be successful, as well as having the necessary funding and being able to offer the right systems and levels of service.
29. AC noted that Armstrong was the only competitor that currently could offer managed laundry services on a national level and that Washstation never lost a contract to Armstrong. Brewer and Bunney are only active in Cornwall, and Goodman Sparks is a very small player located in Nottingham.

30. AC explained that entry in the supply of managed laundry services to higher education customers requires substantial funding. For example, assuming a contract for 100 machines, the costs would be: \$200,000 to acquire the machines, £30,000-40,000 for installation and refurbishment costs, plus card system costs (eg assuming a Greenwald payment system, \$150 per card reader and \$600 for a verifying unit per laundry room). AC submitted that it takes around two and half years to recoup the initial investment.