

THE U.S. JANITORIAL SERVICES INDUSTRY

(October 2014)

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This "off-the-shelf" report is equally applicable to: owners, managers and franchisors & franchisees of commercial cleaning & maintenance/janitorial services, pest control services, facilities management services, building managers, janitorial supplies manufacturers, as well as: banks, securities analysts/brokerage firms, industry consultants, venture capitalists and private equity managers, merger & acquisition candidates, and industry trade associations.

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Executive Overview of Major Findings

Summary - Industry Characteristics and Nature...

Janitorial services in the United States is a huge \$52 billion industry, with a market *potential* of \$104 billion. However, it is a very fragmented and competitive market, populated by a mixture of small mom & pop cleaners, mid-sized companies, and large multi-billion public companies.

One should note that the U.S. Census Bureau estimates do not reflect the true size of the industry and are low, due to various reasons.

The total building service & maintenance industry is near recession-proof, as national receipts only fell twice in the last 20 years, during major recessions. Most years are characterized by moderate growth in the 4-5% range, since the industry's activities encompass a wide variety of services (janitorial services, window cleaning, pest control, landscaping, security, facilities management, HVAC, disaster restoration, security, etc.) many of which are used by private and public sector building managers of all sizes.

Robert W. Baird & Co. analysts estimate that the facility services market has grown at an average annual rate of about 4-5% over the past decade, or slightly faster than average GDP growth. Janitorial receipts of the industry's bellweather and largest company by sales, ABM Industries grew 3.0% in fiscal 2013. (51% of company sales, vs. 68% back in 2009).

The 2012 Census found there were 179,218 total commercial cleaning & maintenance establishments operating in the United States, which generated \$108.2 billion in receipts. **Janitorial Services had the largest number of establishments** and Carpet & Upholstery Cleaning Services had the smallest. Exterminating & Pest Control Services had the highest average receipts per establishment with \$801,000, followed by janitorial services at \$689,000, while Carpet & Upholstery Cleaning Services had the lowest with \$400,000.

Janitorial Services Industry Snapshot: 2012, 2007, 2002, and 1997

(statistics for employers with payrolls)

	1997	2002	2007	2012
No. of estabs.	55,157	50,984	53,814	53,848
Receipts (\$ mill.)	\$21,128	\$27,009	\$33,021	\$37,095
Annual payroll (\$ mill.)	\$10,106	\$12,845	\$15,623	\$17,505
Total employment	892,290	918,777	940,889	991,423
Receipts per estab. (000)	\$383	\$530	\$614	\$689
Receipts per employee (000)	\$24	\$29	\$35	\$37
Payroll per employee (\$)	\$11,326	\$13,980	\$16,604	\$17,656
Employees per estab.	16.2	18.0	17.5	18.4

Source: U.S. Census Bureau

This is also an extremely competitive business that is highly fragmented, populated in large part by many small "mom & pop" operations. The differences amongst these contractors is striking, from part-time franchisees who may gross only \$1,000 per month to large publicly owned corporations such as ServiceMaster that have company-wide revenues of \$3.3 billion .

Average annual receipts per janitorial establishment in 2012 were \$689,000, up 12.2% from 2007. Payroll costs ate up 47% of each sales dollar in 2012, almost exactly the same as a decade ago in 2002. Each employees generated \$37,000 in sales, on average, in 2012, and each establishment employed 18 workers.

The Economic Census collects statistics on both **employer** and **non-employer** firms and establishments. A non-employer entity is one in which there are no employees (i.e. no payroll), and all of the services are provided by the proprietor. These are the smallest "mom & pop" operators.

In 2012 there were 1,223,492 non-employer establishments providing services to buildings & dwellings. They had total annual receipts of \$22.7 billion, and they averaged \$18,600 in receipts per establishment. **Janitorial service was the largest segment with 712,542 establishments, and total receipts of \$10.16 billion.**

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Factors Affecting Demand

Amount of Commercial Buildings & Floorspace...

According to the latest 2012 Commercial Buildings Energy Consumption Survey, by the U.S. Energy Information Administration:
The preliminary results from the Commercial Buildings Energy Consumption Survey (CBECS) show that there were 5.6 million commercial buildings in the United States in 2012, comprising 87.4 billion square feet of floorspace. This represents a 14% increase in the number of buildings and a 22% increase in floorspace since 2003, the last year for which CBECS results are available.

Trends – 1979 to 2012: Growth in building size outpaces increases in building stock

Since the first CBECS was conducted in 1979 to the current 2012 CBECS, the number of buildings has increased from 3.8 million to 5.6 million, and the amount of commercial floorspace has increased from 51 billion to 87 billion square feet.

Figure 1. In recent years, commercial floorspace has grown more rapidly than the number of buildings

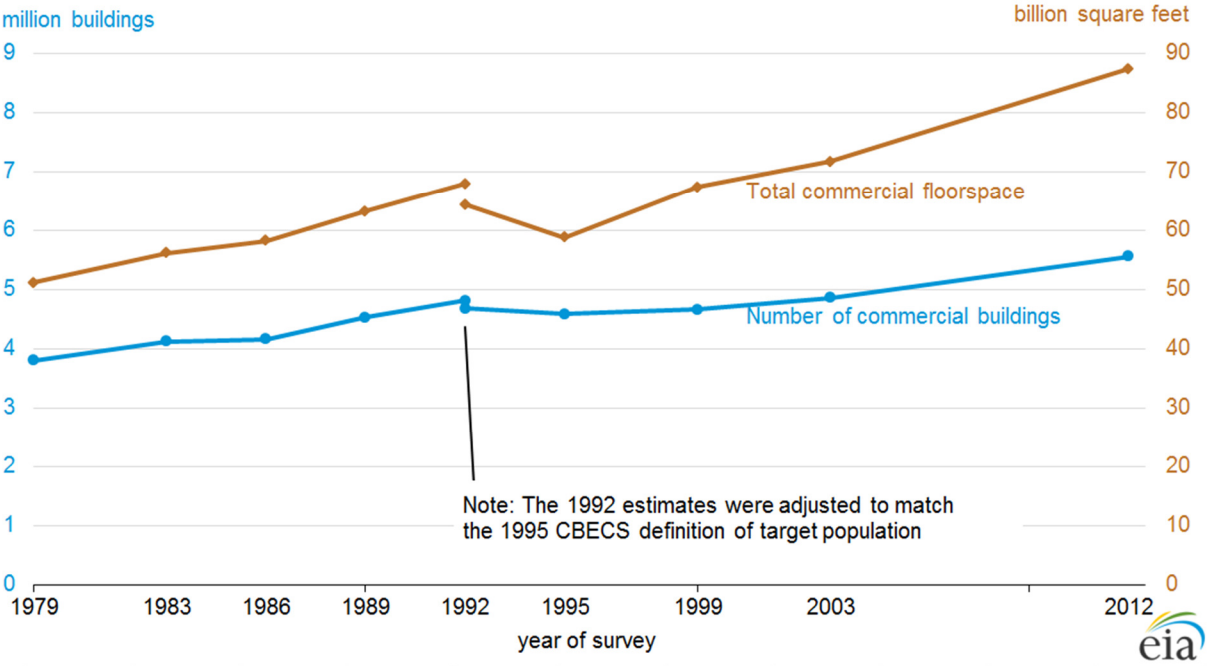
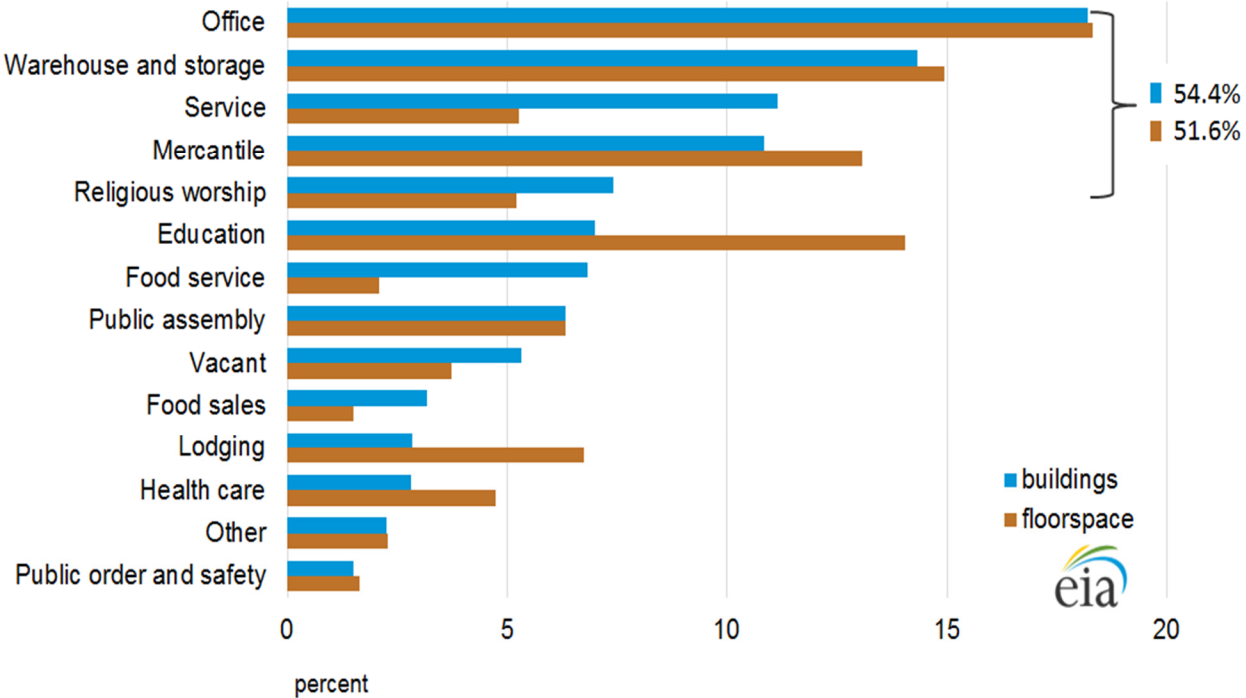


Figure 2. Office, warehouse and storage, service, and mercantile buildings are the most prevalent building types, accounting for more than half of the total buildings and the total commercial floorspace



Size of buildings: Although there are relatively few very large buildings (over 100,000 square feet of floorspace), they account for more than one-third of total commercial building floorspace

Commercial buildings are often depicted showing a skyline of towering buildings. However, the vast majority of commercial buildings are relatively small. Just less than half of buildings are 5,000 square feet in size or smaller, and nearly three-fourths are 10,000 square feet or smaller. The median building size is 5,100 square feet (i.e., half the buildings are larger than this and half are smaller), while the average size is 15,700 square feet. The average is larger than the median because of the influence of a small number of very large buildings; buildings over 100,000 square feet make up only about 2% of the building count but about 35% of the total floorspace.

Medical Building Construction Trends...

Data from the U.S. Centers for Medicare & Medicaid Services shows that health care expenditures grew at a 6.6% average rate between 1990 and 2010. During the same period, average expenditures for medical equipment and structures grew at a 5.5% rate and expenditures for medical structures grew 4.7%. There were big increases in expenditures on structures in 1993 to 1994, 1997, 2002, and 2004 through 2008.

Major Findings for National Health Expenditures: 2012-2022

- Health spending is projected to grow at an average rate of 5.8 percent from 2012-2022, 1.0 percentage point faster than expected average annual growth in the Gross Domestic Product (GDP).
- Health spending growth through 2013 is expected to remain just under 4.0 percent due to the sluggish economic recovery, continued increases in cost-sharing requirements for the privately insured, and low growth for Medicare and Medicaid.
- Improving economic conditions, the Affordable Care Act (ACA) coverage expansions, and the aging of the population, drive faster projected growth in health spending in 2014 and beyond.

U.S. Health Care Expenditures (with the effects of the ACA)

Year	Total Health Care Expend.	Annual % Change	Structures & Equipment	Annual % Change	Structures	Annual % Change
1995	\$1,027.5	5.6	\$47.2	2.2	\$20.9	0.4
1996	1,081.9	5.3	49.9	5.8	21.6	3.4
1997	1,142.6	5.6	52.5	5.2	23.2	7.0
1998	1,209.0	5.8	57.9	10.2	23.7	2.6
1999	1,286.6	6.4	62.1	7.3	25.4	7.0
2000	1,377.2	7.0	62.1	-0.1	25.4	-0.1
2001	1,494.1	8.5	62.8	1.1	26.1	2.9
2002	1,636.4	9.5	70.0	11.6	29.3	12.0
2003	1,774.3	8.4	75.1	7.2	30.9	5.6
2004	1,900.0	7.1	78.9	5.1	33.1	7.0
2005	2,029.1	6.8	86.2	9.2	36.2	9.5
2006	2,162.4	6.6	89.6	3.9	40.6	12.2
2007	2,297.1	6.2	101.7	13.6	46.5	14.5
2008	2,403.9	4.7	110.4	8.6	51.7	11.2
2009	2,495.8	3.8	100.6	-8.9	46.6	-10.0
2010	2,600.0	3.9	100.1	-0.7	41.1	-11.6
2011	2,700.7	3.9	103.7	3.6	NA	
2012	2,806.6	3.9	109.7	5.8	NA	
2013	2,914.7	3.8	114.1	4.0	NA	
2014	3,093.2	6.1	120.8	5.9	NA	
2015	3,273.4	5.8	127.2	5.3	NA	
2016	3,458.3	5.6	134.3	5.6	NA	
2017	3,660.4	5.8	143.1	6.5	NA	
2018	3,889.1	6.2	153.1	7.0	NA	
2019	4,142.4	6.5	163.9	7.0	NA	
2020	4,416.2	6.6	174.9	6.7	NA	

Source: Centers for Medicare & Medicaid Services

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Industry Size, Growth, Market Segments

Market Size & Structure: A Three-Tiered Market...

At first glance, a person not familiar with this industry might think that the franchisors with household names, such as ServiceMaster and Jani-King, dominate the business. This could not be further from the truth. Actually, there exists a three-tiered market of competitors, with major differences in the size of the accounts and buildings they serve.

1. There are three companies worth over \$1 billion in commercial cleaning revenue; the janitorial arm of ABM Industries and the franchise networks of ServiceMaster Clean and SERVPRO. ABM is over twice the size of the ServiceMaster franchise network and three times the size of SERVPRO. ABM also provides facilities management services.
2. Mid-sized and small facility service providers such as UGL Services, Pritchard Industries and Red Coats, Inc. These firms are well diversified and can offer a "total service" operation encompassing facilities management, janitorial and building maintenance; electrical and lighting systems, and heating-ventilation-air conditioning. These firms are usually found servicing large commercial buildings in large metropolitan areas.
3. Franchise networks such as Jani-King, Stanley Steamer, Coverall, and JAN-PRO. They will provide contract cleaning services to smaller commercial accounts. In the case of Stanley Steamer, they provide carpet cleaning services to both commercial and residential accounts.

Marketdata has identified 20 contract cleaning services that service commercial and residential accounts. These 20 companies had an estimated \$13.0 billion in revenues in 2013, versus \$11.34 billion in 2011—a 14.7% gain over two years. UGL Services is a subsidiary of a larger publicly traded company, and UGL's parent is domiciled in Australia. It should be noted that this group is not purely janitorial services. Rather, it spans a mixture of carpet cleaning companies, all building maintenance services, private household maid services, and disaster restoration.

20 Largest Cleaning Companies

	Ownership	2011 Revenue (\$ mill.)	2013 Revenue (\$ mill.)
1 ABM Industries	Public/Subsidiary	\$4,247	Data appears In report
2 ServiceMaster Clean	Franchisor	1,791	
3 SERVPRO	Franchisor	1,121	
4 UGL Services	Public/Subsidiary	852	
5 Jani-King	Franchisor	647	
6 Stanley Steamer Carpet	Franchisor	406	
7 Coverall Health-Based Cleaning	Franchisor	321	
8 JAN-PRO	Franchisor	220	

9	Molly Maid	Franchisor	219
10	Chem-Dry	Franchisor	215
11	Rainbow International	Franchisor	198
12	Pritchard Industries	Private	164
13	Red Coats, Inc.	Private	139
14	The Cleaning Authority	Franchisor	137
15	CleanNet	Franchisor	129
16	Steamatic	Franchisor	124
17	The Maids	Franchisor	120
18	Stratus	Franchisor	109
19	Coit	Franchisor	100
20	Vanguard Cleaning System	Franchisor	88
	Totals		11,347

Source: Franchise Times, OneSource, company Websites, Marketdata Estimates

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Industry Size & Growth Rate...

Estimates Based on Commercial Floor Space

The U.S. Energy Information Administration's (EIA) Commercial Building Energy Consumption Survey (CBECS) is the most comprehensive national survey of commercial buildings with more than 1,000 square feet of floor space that devote more than half of their floor space to commercial activity. The most recent survey was from 2003. The survey was updated in 2012.

The EIA changed their data collection methodology in 1995. Prior to that year it included parking garages in the estimates for total floor space. To allow for a comparison, Marketdata adjusted the 1989 and 1992 totals. Between 1989 and 2003, total commercial floor space rose 2.8% annually from 51,389 million to 71,650 million square feet. **The total figure as of 2012 is now 87.4 billion sq. ft. of floorspace.**

Commercial Building Floor Space

Year	Square Footage* (Million Square Feet)
1989	51,389
1992	54,952
1995	58,770
1999	67,330
2003	71,650
2012	87,400

*Department of Energy changed their inventory methodology with the 1995 survey. The earlier figures are Marketdata estimates.

Source: U.S. Department of Energy, Marketdata Estimates

In 2003, the Building Owners & Managers Association (BOMA) reported that for the U.S. every cleanable square foot in an office building, the typical owner/manager spent \$1.33 (including supplies). Perhaps 20% of this space does not have to be cleaned for various reasons. Using this methodology, there was 69,920 million square feet of cleanable building floor space in 2012. **Using a cleaning cost of \$1.33 per square foot, the potential commercial cleaning market was worth \$93 billion in 2012.**

BOMA's 2010 Experience Exchange Report put commercial building cleaning costs at \$1.45 per square foot in 2009. Marketdata believes that this rose to \$1.49 per square foot in 2011. **Using this methodology, it is estimated that the potential commercial cleaning market was worth \$104.2 billion in 2012.**

More...

Industry Economic Structure & Operating Ratios

Explanation of U.S. Census Survey Statistics...

The U.S. Census of Service Industries is performed every five years, most recently in 2012. Usually it takes one to two years from the time the survey is conducted to tabulate, print and release detailed state and total U.S. information.

National and state data is now available for 2012 for this industry, covering annual receipts, the number of establishments operating, the payroll of these establishments, and the number of workers. So, we can compare these national macro statistics to 2007, to derive 5-year trends in sales growth, employee wages and productivity.

More data is being released through 2014 and into 2015, covering such topics as receipts by establishment and firm size, sources of receipts, ratios for single-unit vs. multi-unit firms, and more. One should check with www.census.gov periodically to obtain this information.

In between the 5-year Census surveys, there are annual surveys that collect receipts data, including the Service Annual Survey, and County Business Patterns. These sources provide a more up-to-date view of whether receipts are growing or declining.

Summary: All Cleaning & Maintenance Services for Buildings & Dwellings

Total industry receipts for services to buildings & dwellings (commercial and private, excluding landscaping) rose from \$35.790 billion in 2000 to \$52.153 billion in 2008. The recession caused industry receipts to fall to \$49,687 million in 2009 and they rebounded to \$50.613 billion in 2010 and \$56.3 billion by 2012.

Exterminating & and pest control services receipts rose from \$5.723 billion in 2000 to \$10.33 billion by 2012. It was the only industry segment not to have a drop in receipts from the decade's two recessions. **Janitorial services** receipts were \$34.887 billion in 2008. They fell in 2008 and rebounded to \$37.09 billion by 2012. **Carpet & upholstery cleaning** receipts reached a high of \$3.11 billion in 2012. Receipts declined in 2003, 2004, 2009, and 2010. **"Other services to buildings and dwellings"** saw receipts fall in 2004, 2009 and 2010, but rebound to \$5.75 billion by 2012. These "other" services include: window washing, pressure washing, air duct cleaning, parking lot maintenance, lighting and miscellaneous services.

National Industry Receipts: Services to Buildings & Dwellings (excl. landscaping services)

NAICS	5617	56171	56172	56174	56179
Industry	Services to buildings & dwellings (\$ Millions)	Exterminating & pest control services (\$ Millions)	Janitorial services (\$ Millions)	Carpet & upholstery cleaning services (\$ Millions)	Other services to buildings & dwellings (\$ Millions)
2000	35,790	5,723	24,593	2,463	3,011
2001	38,168	6,067	26,220	2,541	3,340
2002	40,144	6,597	27,009	2,719	3,819
2003	42,604	7,186	28,725	2,648	4,045
2004	43,272	7,630	29,041	2,642	3,959
2005	44,985	8,118	29,779	2,877	4,211
2006	46,024	8,483	30,116	2,900	4,525
2007	49,454	8,693	33,021	2,962	4,778
2008	52,153	8,936	34,887	3,097	5,233
2009	49,687	9,135	32,591	2,870	5,091
2010	50,613	9,543	33,565	2,629	4,876
2012	56,305	10,339	37,095	3,116	5,755

Source: U.S. Census Bureau, Service Annual Survey

According to the Bureau of Labor Statistics, Janitors and building cleaning workers held about 2.3 million jobs in 2010. About 32 percent were employed in the services to buildings and dwellings industry, and another 14 percent were employed in elementary and secondary schools. The remainder was employed throughout other industries.

The median hourly wage for janitors and building cleaners was \$10.68 in May 2010. The median wage is the wage at which half the workers in an occupation earned more than the amount and half earned less. The lowest 10 percent earned less than \$7.86 per hour, and the top 10 percent earned more than \$17.88 per hour.

In May 2010, the median hourly wages in industries employing some of the largest numbers of janitors and building cleaners were as follows:

Local government	\$13.14
Elementary and secondary schools	13.04
Colleges, universities, and professional schools	12.37
General medical and surgical hospitals	11.76
Services to buildings and dwellings	9.48

Employment of janitors and building cleaners is expected to grow 11 % from 2010 to 2020, about as fast as the average for all occupations. Many new jobs are expected in facilities related to health care, as this industry is expected to grow rapidly. In addition, as more companies outsource their cleaning services, janitorial contractors are likely to benefit and experience demand. However, employment growth is expected to be tempered as fewer new buildings are built over the projected decade.

Job prospects are expected to be favorable. Those with experience should have the best job opportunities. Most job openings will come from the need to replace many workers who leave or retire from this very large occupation.

The Janitorial Services Sector...

Janitorial Services Industry Snapshot: 2012, 2007, 2002, and 1997

(employers with payroll statistics)

	1997	2002	2007	2012
No. of estabs.	55,157	50,984	53,814	53,848
Receipts (\$ mill.)	\$21,128	\$27,009	\$33,021	\$37,095
Annual payroll (\$ mill.)	\$10,106	\$12,845	\$15,623	\$17,505
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Employees per estab.	16.2	18.0	17.5	18.4

Source: U.S. Census Bureau

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The Largest Franchisors...

The 10 largest franchisors are now estimated to operate a total of 44,092 units—9% less than in 2011. The decline was due to the closure of many units due to all the negative publicity, lawsuits and franchisee claims of misrepresentation that stalled franchise growth in the industry. Jani-king, Bonus Building Care and Stratus Building Solutions all came under fire. Marketdata analysts tried multiple times to contact management at these companies for comment and discussion, and to confirm how many units are operating currently, but our requests went unanswered.

The three largest franchisors are Coverall, Jani-King and JAN-PRO. In 2013 they had a combined 28,922 franchise units, 65% of all the units of the top 10 franchisors combined.

Between 2008 and 2011, the total number of commercial cleaning franchises increased 18.8%, from 40,750 to 48,420. We think this was due to the effects of the great Recession, where many people that were fired invested their savings in franchises that they thought would represent a viable and reliable job alternative. However, their hopes were not fulfilled several years later.

Major Commercial Cleaning Franchises: Number of Domestic Franchises

	2008	2010	2011	2013
Coverall Health-Based Cleaning	8,762	9,416	9,500	7,652
Jani-King	10,698	10,010	9,245	10,991
JAN-PRO	8,127	10,266	9,010	10,279
CleanNet USA	3,582	4,745	5,263	2,979
Stratus Building Solutions	1,339	3,512	5,131	2,500 #
ServiceMaster Clean	3,042	3,043	3,034	3,105
Anago Cleaning Systems	1,233	2,196	2,239	2,443
Vanguard	1,144	1,734	1,996	2,671
BONUS Building Care	2,119	1,711	1,700	274
System4	704	1,190	1,302	1,198
Totals	40,750	47,823	48,420	44,092

Marketdata estimate. Company could not be reached to confirm data.

Source: Entrepreneur Magazine, Marketdata Estimates

On an annual basis, the number of franchised units rose 10% in 2009. In 2010 the franchise growth rate slowed to 6.6%. Stratus, Jan-Pro and CleanNet added 3,147 new franchise units, and BONUS Building Care and Jan-King lost a combined 1,432 units.

In 2011, franchise unit growth slowed to 1.2% and the industry added only 597 new franchise units. Jani-King lost 765 units, JAN-PRO lost 1,256, Bonus Building Care lost 11, and ServiceMaster Clean lost nine units. Marketdata attributes the slowdown to the weak recovery, coupled with unscrupulous operators that churned accounts and misrepresented earnings claims.

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Jan-Pro International

Jan-Pro International was founded in 1991 by Jacques Lapointe in Providence, RI. It began franchising the following year. By 2010 it had crossed 10,000 franchise unit marks. A new JAN-PRO franchisee serving the Dubai United Arab Emirates opened in July, 2010. JAN-PRO currently has over 90 regional offices and a presence in all 50 states. It has offices in Australia, Bahamas, Brazil, Canada, Dominican Republic, Ireland, New Zealand, Saudi Arabia/United Arab Emirates, and the United Kingdom. The Franchise Times 2011 Franchise 200 listed JAN-PRO's franchise system wide revenue at \$220 million. Franchise unit revenue is approximately \$21,000 per unit. The company was ranked 11th in Entrepreneur Magazine's 2011 Franchise 500.

Franchisees offer commercial cleaning services to auto dealerships, banks, churches, offices and schools. JAN-PRO's "Cleaning Greener" initiative emphasizes the use of environmentally friendly cleaning products.

JAN-PRO currently offers both Unit and Master Franchises. The Master Franchise creates a decentralized structure where each owner acts as the Regional Franchisor for an exclusive market. The total investment is over \$100,000.

JAN-PRO franchise agreements are for 10 years and they are renewable. Franchise fees can range from \$2,800 to \$44,000 and they are based upon the territory's population. Franchisees pay a monthly 10% royalty. Unit franchise financial requirements are a net worth of \$1,000 to \$14,000 and a minimum liquid cash requirement of \$1,000.

Franchise Growth

Year	U.S.	Canada	International	Company Owned
2013	10,279	NA	NA	NA
2011	9,010	1,044	39	0
2010	10,266	947	35	0
2009	9,276	793	30	0
2008	8,127	730	18	0

Corporate Headquarters

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