OMNI SERVICES, INCORPORATED (A)

This was not the first time someone had shown an interest in buying Omni Services, Inc., a rental linen service headquartered in Culpeper, Virginia. In 1975 a Minnesota firm offered to buy the Omni stock and to pay for it with notes, but Omni's major shareholders objected to holding notes of the other company. Since then other offers had also been rejected. Each time, the major shareholders had expressed concern over the strength of the potential purchaser or the terms of the offer: those making the offers were either too small, had too much debt, or were in a different line of business. But now, the interest of the owner of The Société Générale de Location et Services Textiles (Textiles), a large, strong French firm that was also in the rental linen business, seemed more promising. After a brief initial meeting, Omni's founder and president, N. B. Martin, and Textiles' owner, Jean Leducq, had started getting to know each other and each other's business. Jean Leducq had sent Textiles representatives to visit several of Omni's plants; and Martin, while vacationing in France, had stopped to look at some of Textiles' operations. During that visit Martin and Luducq had discussed a number of things quite openly, but price was not one of them. Leducq was considering buying a majority interest in Omni with his eventual ownership position reaching two-thirds or better.

Although there had been considerable correspondence and many visits by Textiles employees, Leducq himself had never visited Omni's headquarters. Now he was coming for a short visit in mid-April to meet the Omni management and visit the Culpeper plant. Knowing that Leducq had engaged a New York firm to value Omni's closely-held stock, Martin was sure that Leducq was serious about his proposal. In preparation for this visit by Leducq, Martin asked Omni's comptroller, Larry Thomson, to determine a fair price for a majority of Omni's stock and to consider a method that could be used now to place a price on the remaining shares for sale in 1985.

Omni Services, Inc.

Omni Services, Inc., was a holding company for the twelve companies listed in **Exhibit 1**. Each of the subsidiaries was called Rental Uniform Services and was located in the Eastern U.S.

Firms like Omni were traditionally considered to be part of the industrial laundry business, but the industry had recently become known as "textile lessors."

The industrial laundry business was fragmented. Multi-divisional firms that manufactured, rented, and laundered garments were in direct competition with local businesses that bought their uniforms and serviced their customers in a limited geographical area. Many of Omni's major competitors were closely held and little financial information was available about those operations. Of the firms that were public, the five described in **Exhibits 2** and **3** were most similar to Omni.

Martin had learned about the business while working for an industrial laundry in Cincinnati, Ohio. In 1954 Martin went into partnership with his father-in-law and operated a small ($2,000 per-week volume) uniform rental business in Roanoke, Virginia. He, in partnership with his father-in-law, had opened the Culpeper plant in 1959, and Martin had moved to Culpeper to operate it. It had been quickly successful and sales had grown at a rate of 20 percent almost every year since its founding. The only thing that seemed to stem growth of that operation had been a plant fire in 1974.

By 1968, Martin had started new operations in Hanover, Pennsylvania, and Morgantown, W. Virginia. The three plants, each called a Rental Uniform Service (RUS), were separately incorporated. Even though the shareholders and board members were virtually identical, the Internal Revenue Service had treated them as separate entities, and the combined taxes were thus somewhat lower. By 1972, nine RUSs had been added, the separate incorporation tax advantages had disappeared, and the eleven separate operations had become subsidiaries of the newly-formed Omni Services, Inc.

Omni supplied industrial uniforms to 75,000 people. Four days a week a total of 150 trucks left the plants operated by Omni's 12 Rental Uniform Services. Each day every truck had an established route in a nearby metropolitan area. The driver stopped at such places as service stations, garages, and automobile dealerships to deliver six pre-packaged shirts and trousers for each employee. Since employees needed specific sizes, the shirts and trousers delivered were the same as those that the deliveryman had picked up the previous week. The employee's name, and often the name of the company, was stitched on the shirt. The soiled uniforms were returned to the plant for washing or drycleaning, and mending. In addition, Omni provided executive garments for office and management personnel, shoptowels, walkmats, fender covers, and linen roll towels.

Most of Omni's business was in large metropolitan areas and eleven of their twelve subsidiaries were located on the fringes of those areas. For example, their largest and oldest operation, the plant in Culpeper, Virginia, served the Washington, D.C., area, as well as several less-populated areas—Culpeper, Charlottesville, and Lynchburg, Virginia. While these non-metropolitan processing plants tended to increase transportation time and costs, Martin had always believed their locations allowed them to attract employees that were more dependable and productive than those employed by firms that relied on the more transient and higher-paid city worker. Martin felt much of Omni's success came from the edge loyal employees gave the firm.

Over the years Omni had been innovative in managing these employees. In 1971 a four-day work week had been instituted. In 1975 Omni was the first firm of any size in Virginia to offer an Employee Stock Ownership Plan (ESOP), a kind of profit-sharing plan in which Omni stock was purchased and held in trust for each employee. None of Omni's 600 employees belonged to a union.

Omni had a total of 48 investors, although three were of primary importance: N. B. Martin, the founder, President, and Chairman of the Board, with 56 percent of the stock; T. Y. Martin, N. B.'s brother, Omni's Secretary-Treasurer, and President of the Culpeper RUS, who held 23 percent; and the Omni ESOP with 12.5 percent.

Martin was quite pleased with Omni's present position. Except for the effects of the 1974 Culpeper plant fire—when destroyed uniforms had to be replaced and Washington, D.C., laundry and drycleaning services had to be trucked to Hanover, Pennsylvania, and back—the firm had prospered and grown. **Exhibit 4** summarize Omni's operations over the past seven years. Compared with the other rental uniform services shown in **Exhibits 2** and **3**, they had reason to be proud. The industry average profit before taxes was about 5.5 percent while Omni's was almost double that figure. Even with this past success, Martin had begun to plan changes for Omni's future.

Martin wanted to be less involved in the daily operations and concentrate more on the future for the firm. As a first step, he had in 1978 appointed two regional managers whose job it was to oversee the operation of the 12 individual RUS managers.

In the fall of 1979, Martin had put together a five-year plan for Omni with the following goals:

1. Double profits by 1984.
2. Double sales by 1984.
3. Reduce the debt-to-equity ratio substantially.

Capital would be re-invested in new services, except for the following planned dividend payments and an annual contribution to the ESOP of 7 to 10 percent of the payroll.

	1980	1981	1982	1983	1984
Total dividend	$216,000	$240,000	$264,000	$288,000	$336,000
Dividends per share	.36	.40	.44	.48	.56
Payout Ratio (Est.)	14.8%	14.3%	13.5%	12.7%	12.8%

Two other goals, subject to revision yearly, had been spelled out by Omni management:

1. The formation of 2 to 3 new RUSs by 1984.

2. The potential acquisition of one or two industrial laundries with annual sales of $500,000 to $2 million by 1984.

If the possibility of selling or merging the firm developed, Martin stated, "We will examine any serious offer made to us during the next five years....[But] at this time, we do not plan to seek out buyers."

Before the five-year plan could be formally reviewed and approved by Omni's board in January, 1980, the contact with Textiles had been established.

The Textiles Offer

In September, 1979, Martin had received a letter from an old friend, the President of Workwear, Inc., a firm that manufactured uniforms and until 1976, had been in the rental business. The two men had known each other through the Textile Rental Services Association, a trade group. The letter to Martin had introduced Jean Leducq, the owner of Textiles, the largest linen supply company in France. One third of Textiles' $120 million in sales came from the rental of linen roll towels. Leducq, the letter said, would like to talk to Martin about the possibility of a merger.

By mid-October, Leducq's nephew and his heir-apparent, Christian Colas, a 40-year-old ex-test pilot and a Stanford MBA, had been to visit several of Omni's plants with two other Textiles employees. While in the United States, the trio had also visited other industrial laundry firms. Textiles was obviously serious about investing in a U.S. firm in the rental uniform or industrial laundry business.

When Martin visited several of Textiles' operations in November, he was treated royally. He and Luducq had talked at length about the differences between the United States and French industrial laundry business. Leducq felt that the rental uniform market in France was about where the U.S. market had been in the early 1950s—quite a different business from what it was today.

Up to the late 1940s, U.S. launderers would wait outside the gates of manufacturing plants so they could collect the heavily-soiled garments of the workers. These garments were laundered, often in crude processing facilities, and returned several days later. Family laundries and linen supply companies were uninterested in processing heavily-soiled garments, and since there were few home washers, housewives were happy to rid themselves of this task. In the late 1940s the firms found that they could purchase work garments at wholesale prices, add a laundering charge, and still compete with the non-rental laundries handling these garments. In addition, the rental laundry operations could schedule production more efficiently, adding a further cost advantage.

By 1980, 95 percent of the U.S. sales volume was in the rental business. In contrast, about 50 percent of the French market sales were in uniform rentals. Textiles predominantly supplied linens to hotels, hospitals, and restaurants—a very competitive, low-profit business. Leducq considered uniform rental to hold great promise in France. Furthermore, he believed Textiles' skill in the roll towel business might be useful to Omni, which had little expertise in linen towel sales.

Martin had carefully explained Omni's relations with its employees to Leducq and Colas. He had taken care to explain exactly what the ESOP was, and why the firm had started it. He emphasized that he felt the ESOP was very important to the employees and served to make them more involved and committed to Omni. Leducq had stated that if Textiles did buy a majority of Omni's stock, they would want to set the maximum ESOP ownership at 25 percent of the stock. Currently it held 12 1/2 percent of Omni's outstanding common stock. Although Martin had briefly mentioned a per-share price "in the thirties," the discussion of price had gone little further.

Leducq said he would want assurances from Martin that he and the rest of Omni management would stay. Since Martin would continue to operate Omni as he had in the past, Martin could offer management contracts to current Omni managers if he wished—it was up to him. He also wanted assurances that Martin would continue to operate the business as had been planned: seeking new businesses, and making the capital investment outlays and dividend payments detailed in the five-year plan.

After Martin's return from France, he had talked with the other shareholders, Omni's management, and the Board of Directors. One board member recalled when his firm had been sold ten years ago. The buyer, he remembered, had moved right in and taken over. Several years later, after the firm had deteriorated, he had managed to repurchase it and recover the lost business. Three years ago he had sold once again, but the circumstances were different. He kept his job; the new owners were investors and not interested in managing the firm. In fact, they seldom even came to Culpeper; he ran the business and also had the cash from the sale. He noted that the same sort of thing had happened to a rental uniform business in Roanoke, Virginia. The ex-owner said the new owner moved right in, "made us monkeys." The key, they all agreed, was very little operating interference. Martin told them that he felt sure that Leducq had no intention of actively managing Omni.

By mid-March Martin felt sure that most of the details could be worked out. Leducq wanted him to sign a five-year management contract. Martin had toyed with the idea of looking for a new challenge, but he wasn't ready to leave the company entirely. He liked the idea of being the CEO of a $20-million business, having the company airplane at his disposal, and being needed by the business. However, selling some of his stock would provide enough cash to allow him to pay off all his debts, including the mortgage on the new house he was building. Staying with Omni, while selling some of his stock, seemed ideal. The price of the stock was yet to be resolved.

Leducq had proposed that Textiles purchase 51 percent of Omni's shares in 1980. In 1985 Textiles would make an additional purchase of 90,000 shares, bringing their total ownership position to 66 percent. Of the remaining shares, up to 170,000 more could be sold to Textiles in 1985 at the previously agreed-upon price, if any shareholder wished.

Since this agreement would spread the purchase over five years, the French government required that Textiles show the ability to honor their contract by pledging stock or having a line of credit for the full amount of their contractual obligation. Thus, the current price plus whatever Textile agreed to pay for additional shares in 1985 would have to be secured by them before the initial purchase.

The 1985 price would be determined by a formula worked out during the current negotiations. Leducq's objective was to limit his obligation, and hence the amount of security required by the French government until 1985. Thus he wanted a maximum 1985 price established, regardless of the formula outcome. Since the initial understanding was that the shares necessary to make up the purchase would be solicited from all other shareholders first, with Martin selling only enough shares to reach the 306,000-share, 51-percent total, Martin wanted a floor price set below which the 1985 price would not drop.

Leducq had engaged Hudson Securities, a New York firm, to value Omni's shares and devise the formula for pricing the remaining shares in 1985. Their report had been expected in time for a visit to Culpeper on April 11 by Jean Leducq. That visit, Martin had expected, would resolve all remaining questions—except price. The price would be negotiated later by Martin, Omni's comptroller, Thomson, and a team composed of people from Hudson Securities and Textiles. In preparation for that meeting Thomson called a consultant who had valued their ESOP's shares in the past and asked for a valuation of the Omni stock. That report was to be completed on April 14.

Leducq's April 11th Visit

On April 11th, Martin, Leducq, and Thomson spent the afternoon visiting the Culpeper plant. N. B. had been pleased with the tour that his brother T. Y. had given Leducq. N. B. had wanted to return the courtesy he had been shown during his visit to France, and it looked like they had succeeded.

The talk, for the most part, centered around how Omni's Culpeper operation differed from the uniform rental business in France. As the day wore on, Leducq had gotten more and more excited about the prospects of Textiles' aggressively expanding into uniform rental, Omni's strength.

As the men returned to Omni's headquarters, the tone of the conversation changed. Before, it had been process, market, and growth. Now it was merger. N. B. and Leducq had talked about merger over the past few months. They had broached the subject of conditions and had now agreed on how to handle the ESOP, Omni's five-year plan, and N. B.'s continued association with the business.

Conclusion

Hudson Securities had been asked by Leducq to value the Omni stock, but had been dragging their heels. Already they had broken two appointments. Martin and Thomson were thinking that the valuation would drag on for some time when Leducq blurted out, “N. B., what’s your lowest price? We want this merger to be amicable; we want the company to continue just like it is with you at the head. We don’t want you or your employees dissatisfied. But we don’t want to feel we’ve paid too much for the company, either. Give me your lowest price for 1980. We will either agree right now or we will drop our talks of merger and I’ll leave this afternoon.”

Mr. Martin was taken aback by the abruptness of the question, and he suggested that Mr. Leducq have a game of tennis with one of the junior executives on the corporate court while he had a quick discussion with Mr. Thompson and T. Y. Martin. They would meet for dinner to discuss the price for 51 percent of Omni—306,000 shares.

Exhibit 1

OMNI SERVICES, INC.

Location of Omni Subsidiaries

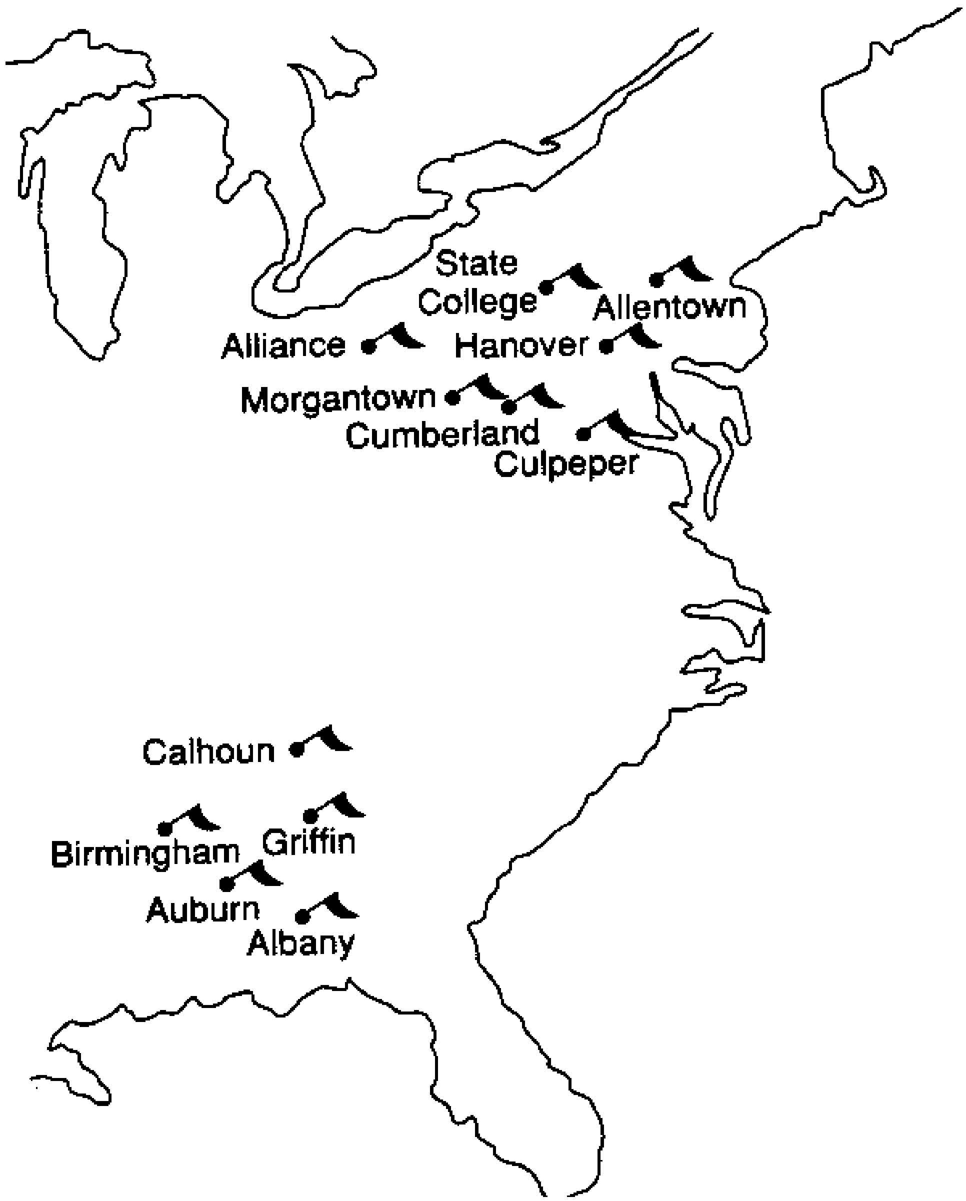

Exhibit 2

OMNI SERVICES, INC.

Similar Rental Uniform Service Firms

Unitog - Manufactured, rented, and sold heavy duty, soil-resistant uniforms for service-station employees, route drivers, and salesmen. Rental business operated out of 9 locations and comprised 38 percent of revenues. Headquarters were in Kansas City, Mo. Approximately 420 stockholders and 2,189 employees.

Rentex - Provided laundry and rental services, linen-supply services, and dust-control services through 9 facilities. Rentals comprised 100 percent of revenues. There were 640 stockholders and 950 employees, with headquarters in Philadelphia.

Means Services - Provided textile maintenance services by rental to businesses in midwestern states, with a concentration on providing work garments, industrial wiping cloths, dust-control textiles, bed and table linens, towels, aprons, uniforms, and continuous towel cabinets. The rental business was 100 percent of its revenue. It had 25 processing plants, 2,718 stockholders, and 3,900 employees with headquarters in Chicago.

Servisco - Manufactured, rented, and laundered work clothes and uniforms, machine wiping towels, fender covers, and linens. It also provided contract building maintenance, housekeeping consultant services, and guard (security) services. Its main office was in Hillside, N.J., and it operated through 27 full-service rental plants. There were 1,501 stockholders and 6,300 employees.

National Service Industries - 26 percent of revenues were from renting table linen, bed linen, operating-room packs, towels, uniforms, and dust-control materials, but lighting equipment and chemical products were also manufactured. NSI was further diversified into insulation service, men’s apparel, envelopes, furniture marketing services, safety products, furniture leasing, and amusement parks. Headquarters were in Atlanta, and NSI had 10,994 stockholders and 19,200 employees.

Exhibit 3

OMNI SERVICES, INC.

Financial Data—Similar Rental Uniform Service Firms

	5-Year Growth in After-Tax Net Profit	5-Year Growth in Revenues	Current Ratio	1978-1979 Growth in Net Worth	Net Profit on Sales	Debt to Common Equity	EPS	Dividend Payout Ratio	Average Yield	Book Value per Share	Return on Common Equity	Sales (in millions)	P/E Ratio	Percent of Sales in Laundry
Omni	27.2%	19.2%	1.5	17.8%	6.1%	35.6%	$2.05	15.6%	N.Av.	$11.48	17.9%	$ 20.0	N.Av.	99%
Rentex	6.6	8.6	1.7	3.9	2.0	60.0	0.60	32.9	4.5%	15.33	5.5	30.7	6.0	100
Servisco	20.4	8.4	3.7	9.3	3.7	29.5	1.60	24.0	5.9	11.84	11.6	92.4	4.0	57
Means Services	10.2	7.0	2.0	5.6	4.4	2.6	2.95	41.0	6.3	25.22	11.0	113.6	6.5	100
NSI	11.8	8.4	2.4	14.4	5.6	5.4	3.12	33.0	5.9	16.48	19.8	708.1	6.0	26
Unitog	(2.8)	10.2	2.9	9.6	3.0	37.6	3.12	26.0	5.3	29.80	10.6	56.4	5.0	38

Exhibit 4

OMNI SERVICES, INC.

Statements of Consolidated Income and Retained Earnings
Years Ending December 31
($000)

	1973	1974	1975	1976	1977	1978	1979	First Quarter 1980
Operating Revenues	$ 7,048	$ 8,383	$10,247	$12,467	$15,008	$16,785	$20,178	$ 5,493
Costs and Expenses:								
Cost of products and plant operations	3,609	4,587	5,231	6,677	7,799	8,738	10,898	2,866
Selling and delivery	1,291	1,610	2,040	2,450	3,092	3,350	3,930	1,051
General and administrative	947	1,243	1,483	1,804	2,129	2,476	3,038	859
Total	5,847	7,440	8,754	10,931	13,020	14,564	17,866	4,776
Income from operations	1,201	943	1,493	1,536	1,988	2,221	2,312	717
Other income (expense)	(102)	(317)	(89)	(117)	(224)	(215)	(242)	-0-
Income before taxes	1,099	626	1,404	1,419	1,764	2,006	2,070	717
Provision for income taxes	543	293	669	653	784	956	840	315
Income before extra-ordinary item	556	333	735	766	980*	1,050	1,230	402
Extraordinary item	27	37	19	-0-	-0-	-0-	-0-	-0-
Net income	$ 583	$ 370	$ 754	$ 766	$ 980	$ 1,050	$ 1,230	$ 402
Less: dividends paid	96	96	132	144	150	168	192	48
Plus: retained earnings, beg. of year	1,530	2,017	1,291	2,913	3,535	4,365	5,247	6,285
Retained earnings, end of year*	2,017	2,291	2,913	3,535	4,365	5,247	6,285	6,639
Per Share Data:								
Income before extra-ordinary item	$ .93	$ .56	$ 1.23	$ 1.28	$ 1.63	$ 1.75	$ 2.05	$ .67
Extraordinary item	.04	.06	.03	-0-	-0-	-0-	-0-	-0-
Net income	.97	.62	1.26	1.28	1.63	1.75	2.05	.67
Dividends	.16	.16	.22	.24	.25	.28	.32	.08

*Does not include common stock account but does include the $6,930 Paid-in-surplus.