

ABM Industries (ABM)

\$30.98 (As of 04/14/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

Systematic and strategic plans of actions are likely to enhance operations and drive long-term profitable growth for ABM Industries through an industry-based go-to-market approach. The company plans to strengthen its position in existing markets through both inorganic and organic growth. Further, the company's consistent efforts to reward its shareholders through dividend payments and share repurchases are encouraging. On the flip side, ABM Industries continues to grapple with a difficult labor environment that is likely to persist through 2020. Increasing expenses resulting from acquisitions is likely to weigh on ABM Industries' bottom line. Further, high debt may limit the company's future expansion in new markets and worsen its risk profile. Backed by these headwinds, shares of ABM Industries have declined over the past year.

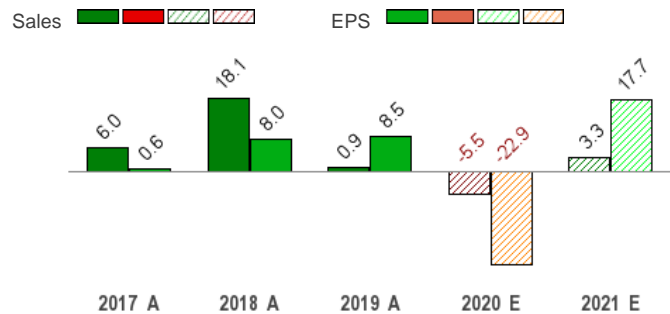
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.67 - \$19.79
20 Day Average Volume (sh)	725,749
Market Cap	\$2.1 B
YTD Price Change	-17.9%
Beta	0.97
Dividend / Div Yld	\$0.74 / 2.4%
Industry	Building Products - Maintenance Service
Zacks Industry Rank	Bottom 14% (217 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-21.8%
Expected Report Date	06/03/2020
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	19.6
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,602 E	1,534 E	1,570 E	1,574 E	6,339 E
2020	1,613 A	1,459 E	1,444 E	1,523 E	6,139 E
2019	1,608 A	1,595 A	1,648 A	1,648 A	6,499 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.33 E	\$0.39 E	\$0.53 E	\$0.63 E	\$1.86 E
2020	\$0.39 A	\$0.29 E	\$0.38 E	\$0.52 E	\$1.58 E
2019	\$0.31 A	\$0.47 A	\$0.60 A	\$0.66 A	\$2.05 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/14/2020. The reports text is as of 04/15/2020.

Overview

New York based ABM Industries is a provider of integrated facility solutions in the United States and internationally.

The company's offerings include janitorial, energy, facilities engineering, electrical and lighting, landscape and turf, HVAC and mechanical, mission critical, and parking solutions. It also offers custom facility solutions in urban, suburban, and rural areas to properties of various sizes, including hospitals, data centers, manufacturing plants, airports, schools and commercial buildings.

During fourth-quarter 2015, ABM sold its Security business to Universal Protection Service for \$131.0 million cash as part of its 2020 Vision Plan.

Effective first-quarter fiscal 2018, the company reorganized its segments to reflect an integrated corporate structure. The revised reportable segments were Business & Industry, Aviation, Education, Technology & Manufacturing, Technical Solutions, and Healthcare. It recently reorganised its healthcare business.

Business & Industry (50% of fiscal 2019 revenues) encompasses janitorial, facilities engineering, and parking services to commercial real estate industries, including sports and entertainment venues.

Aviation (16%) includes services supporting airlines and airports, including parking and janitorial services to passenger assistance, air cabin maintenance, and transportation.

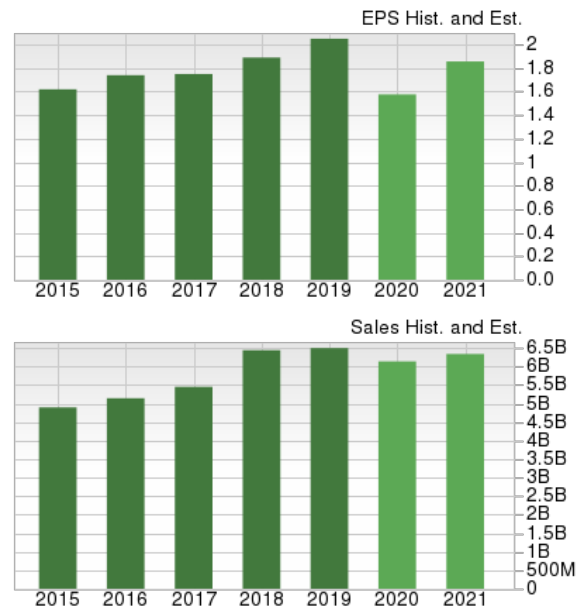
Technology & Manufacturing (14%) provides janitorial, facilities engineering, and parking services for industrial and manufacturing businesses.

Education (13%) encompasses janitorial, facilities engineering, and parking services for public and private schools, colleges and universities.

Technical Solutions (7%) offers specialized mechanical and electrical services.

ABM Industries has developed a platform to deliver an end-to-end service model to its clients by realigning its operational structure to an on-site, mobile and on-demand market-based structure.

The company operates in an environment where competition is based mainly on price, efficiency and service quality.



Reasons To Buy:

- ▲ ABM Industries' **2020 Vision** outlines its long-term plan and hinges on three primary phases, the first of which is aimed to increase the efficiency of the company through diligent execution of the operating plan and stringent cost-reduction activities. The second phase focused on driving growth across the realigned verticals through effective realization of the cost savings from procurement, account management and other organizational changes. The final phase includes accelerated growth impetus from the vertical alignment and account planning systems with a continuous focus on additional cost savings. These systematic and strategic plans of actions are likely to drive long-term profitable growth for ABM Industries through an industry-based go-to-market approach.
 - ▲ ABM Industries has developed a platform to deliver an end-to-end service model to its clients by **realigning its operational structure** (first phase of 2020 Vision) to an on-site, mobile and on-demand market-based structure. This realignment has improved its long-term growth prospects and has provided higher margin opportunities by enabling it to better deliver end-to-end services to its clients across urban, suburban and rural areas. The company further expects to extend its global footprint and strengthen its position in existing markets through both inorganic and organic growth across the industry verticals.
 - ▲ ABM Industries' strategy entails growth through **strategic acquisitions** while maintaining desirable profit margins. The acquisition of GCA Services Group has expanded the company's long term operational and financial position. The GCA integration has been completed and is making meaningful contributions to ABM Industries' overall operational results predominantly within Technology & Manufacturing, Business & Industry and Education segments. Revenues related to GCA acquisition were more than \$1 billion in fiscal 2018.
 - ▲ We are also impressed with ABM Industries' endeavors in rewarding its shareholders through **dividend payments and share repurchases**. In fiscal 2019 and fiscal 2018, the company returned \$47.7 million and \$46 million of dividend payments to its shareholders, respectively. However, no share repurchases were done during fiscal 2019 and fiscal 2018. In 2017, it paid \$39.5 million in dividend and repurchased shares worth \$7.9 million. In 2016, the company returned \$36.9 million through dividend payment and \$46.6 million through share buyback. Such shareholder-friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instill investors' confidence but also positively impact the company's earnings.
-

Systematic and strategic plans of actions under 2020 Vision are likely to drive long-term profitable growth for ABM.

Reasons To Sell:

- ▼ **Increasing expenses** has become a concern for ABM Industries as it is likely to weigh on its bottom line and consequently on the share price that has declined 17.4% over the past year. The company's growth strategy through acquisitions has led to \$682 million of operating expenses from the GCA acquisition. These expenses have led to a significant rise of the company's operating expenses (17.7% y/y) in fiscal 2018. In fiscal 2019, operating expenses rose 0.3% year over year.
- ▼ ABM Industries is a labor company at core with **direct labor cost** comprising majority of its expense line. The U.S. labor market has been witnessing low unemployment levels for both skilled and unskilled labor since the beginning of the year. While the economy continues to create new jobs despite the record low jobless rate, a tight labor market is compelling companies like ABM Industries to pay higher to attract and retain employees. Labor related headwind is weighing on ABM Industries' operating performance.
- ▼ ABM Industries' **balance sheet is highly leveraged**. At the end of first-quarter fiscal 2020, long-term debt was \$786.3 million while cash and cash equivalents were \$69.8 million. Such a cash position implies that ABM Industries needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.

Rising expenses and high debt are likely to hurt ABM Industries.

Last Earnings Report

ABM Industries Q1 Earnings Top Estimates

ABM Industries reported strong first-quarter fiscal 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings from continuing operations came in at 39 cents per share, which outpaced the consensus mark as well as the year-ago quarter's reported figure by 25.8%. The bottom line benefited from higher margin revenue mix primarily within the Business & Industry segment and lower interest related to the company's reduced leverage profile, which were, however, partially offset by its ongoing investments to optimize operational and technological infrastructure.

Total revenues of \$1.61 billion beat the consensus estimate as well as the year-ago quarter by 0.3%. The top line benefited from the Technical Solutions segment, which was partially offset by lower retention stemming from fiscal 2019, including the loss of lower margin contracts, primarily within the Aviation and Business & Industry segments.

Revenues by Segment

Business & Industry revenues (51% of total revenues) decreased 1% year over year to \$820.9 million. Aviation revenues (15%) decreased 5.4% year over year to \$238.7 million. Technology & Manufacturing revenues (15%) declined 0.9% year over year to \$233.9 million. Education revenues (13%) of \$208 million decreased 0.5% from the prior-year quarter. Technical Solutions revenues (10%) increased 22.4% year over year to \$142 million.

Operating Results

Adjusted EBITDA of \$68.8 million was flat year over year. Also, adjusted EBITDA margin of 4.3% came in line with the year-ago quarter. Adjusted income from continuing operations was \$26.2 million, up 25.9% year over year. Operating expenses decreased 0.8% from the year-ago quarter to \$1.43 billion. Selling, general and administrative expenses increased 4.4% from the year-ago quarter to \$117.6 million.

Balance Sheet & Cash Flow

ABM Industries exited first-quarter fiscal 2020 with cash and cash equivalents of \$69.8 million compared with \$58.5 million at the end of the prior quarter. Long-term debt was \$786.3 million compared with \$744.2 million at the end of the prior quarter. Net cash used in operating activities totaled \$34.3 million in the reported quarter. Free cash flow came in at \$45.8 million.

Dividend Payout & Share Repurchases

ABM Industries paid out a quarterly cash dividend of 18.5 cents per share, leading to \$12.3 million of total dividend payout in the reported quarter. Additionally, the company's board of directors announced a cash dividend of 18.5 cents per share, payable on May 4, 2020, to its shareholders of record as of Apr 2. This marks the 216th consecutive quarterly cash dividend declared by the company. ABM Industries did not repurchase any of its shares during the reported quarter. As of Jan 31, 2020, the company had \$150 million authorized shares available for repurchase under its share repurchase program.

Fiscal 2020 Guidance

ABM Industries reaffirmed its fiscal 2020 guidance. The company continues to expect adjusted income from continuing operations in the range of \$1.90-\$2.10 per share.

Quarter Ending 01/2020

Report Date	Mar 04, 2020
Sales Surprise	0.26%
EPS Surprise	25.81%
Quarterly EPS	0.39
Annual EPS (TTM)	2.12

Recent News

On **Apr 07, 2020**, ABM announced that it will provide EnhancedClean Program to clients to support COVID-19 remediation efforts.

On **Jan 24, 2020**, ABM announced that it has started providing into-plane fueling services for Spirit Airlines at Dallas Fort Worth International Airport (DFW) in Texas.

Valuation

ABM shares are down 17.9% in the year-to-date period and 17.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 3.8% and 14.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 22.7% and 8.6%, respectively.

The S&P 500 index is down 11.8% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 14.67X price to forward 12 months' earnings, which compares to 38.17X for the Zacks sub-industry, 23.34X for the Zacks sector and 18.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.08X and as low as 11.48X, with a 5-year median of 18.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35.00 price target reflects 16.59X price to forward 12 months' earnings.

The table below shows summary valuation data for ABM

Valuation Multiples - ABM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	14.67	38.17	23.34	18.99
	5-Year High	24.08	40.63	25.13	19.34
	5-Year Low	11.48	18.48	18.67	15.19
	5-Year Median	18.39	27.62	20.52	17.45
P/S F 12M	Current	0.31	3.04	3.46	3.16
	5-Year High	0.49	4.77	3.94	3.44
	5-Year Low	0.24	2.4	3.05	2.54
	5-Year Median	0.37	3.09	3.56	3.01
P/B TTM	Current	1.33	6.01	3.98	3.77
	5-Year High	2.73	12.53	6.68	4.55
	5-Year Low	0.88	4.97	3.16	2.84
	5-Year Median	1.75	10.2	5.18	3.64

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (217 out of 253)



Top Peers

EMCOR Group, Inc. (EME)	Outperform
Aramark (ARMK)	Neutral
Johnson Controls International plc (JCI)	Neutral
Limbach Holdings, Inc. (LMB)	Neutral
Rollins, Inc. (ROL)	Neutral
SP Plus Corporation (SP)	Neutral
Team, Inc. (TISI)	Neutral
ServiceMaster Global Holdings, Inc. (SERV)	Underperform

Industry Comparison Industry: Building Products - Maintenance Service				Industry Peers		
	ABM Neutral	X Industry	S&P 500	ARMK Neutral	JCI Neutral	SP Neutral
VGM Score	D	-	-	F	D	B
Market Cap	2.06 B	2.06 B	19.79 B	5.66 B	23.53 B	525.02 M
# of Analysts	3	3	14	7	8	2
Dividend Yield	2.39%	0.00%	2.16%	1.96%	3.38%	0.00%
Value Score	B	-	-	C	D	B
Cash/Price	0.04	0.04	0.06	0.05	0.09	0.05
EV/EBITDA	8.73	15.20	11.74	8.41	14.51	9.68
PEG Ratio	NA	2.86	2.15	3.20	1.68	NA
Price/Book (P/B)	1.33	1.33	2.65	1.64	1.15	1.40
Price/Cash Flow (P/CF)	8.41	8.41	10.40	4.79	9.66	5.78
P/E (F1)	19.33	30.33	17.72	25.23	14.24	8.70
Price/Sales (P/S)	0.32	0.32	2.06	0.35	0.98	0.32
Earnings Yield	5.10%	3.30%	5.46%	3.97%	7.01%	11.52%
Debt/Equity	0.50	0.77	0.70	2.05	0.29	1.77
Cash Flow (\$/share)	3.68	1.41	7.01	4.68	3.19	3.95
Growth Score	D	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	2.96%	2.96%	10.92%	12.13%	-0.04%	28.93%
Proj. EPS Growth (F1/F0)	-23.09%	-5.29%	-2.65%	-60.33%	10.33%	-3.85%
Curr. Cash Flow Growth	2.86%	2.86%	5.93%	5.25%	-26.61%	26.50%
Hist. Cash Flow Growth (3-5 yrs)	10.89%	6.01%	8.55%	6.35%	6.22%	12.13%
Current Ratio	1.48	1.26	1.24	1.23	1.17	0.56
Debt/Capital	33.52%	43.38%	42.36%	67.28%	22.47%	63.95%
Net Margin	2.19%	2.19%	11.64%	2.12%	22.75%	2.93%
Return on Equity	9.37%	9.37%	16.74%	16.88%	8.43%	16.01%
Sales/Assets	1.73	1.24	0.54	1.17	0.55	1.12
Proj. Sales Growth (F1/F0)	-5.53%	0.76%	0.00%	-4.43%	-3.47%	-39.01%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	7.98%	5.64%	2.56%	0.36%	4.90%	5.94%
1 Week Price Chg	27.00%	9.18%	16.01%	37.00%	20.14%	28.92%
4 Week Price Chg	9.78%	-1.39%	11.39%	49.47%	4.30%	-3.95%
12 Week Price Chg	-21.47%	-21.47%	-19.33%	-52.04%	-24.93%	-44.66%
52 Week Price Chg	-16.63%	-42.24%	-11.64%	-27.72%	-16.44%	-33.54%
20 Day Average Volume	725,749	725,749	3,452,738	5,922,445	8,047,321	248,341
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-6.44%	0.00%
(F1) EPS Est 4 week change	-21.82%	-13.45%	-6.42%	-36.89%	-14.82%	-13.08%
(F1) EPS Est 12 week change	-21.17%	-21.17%	-8.69%	-33.57%	-14.96%	-12.79%
(Q1) EPS Est Mthly Chg	-33.33%	-26.61%	-11.08%	-96.92%	-25.72%	-40.43%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.