

ABM Industries (ABM)

\$37.29 (As of 08/17/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/17/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

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. Due to these headwinds, ABM Industries' stock price has declined over the past year.

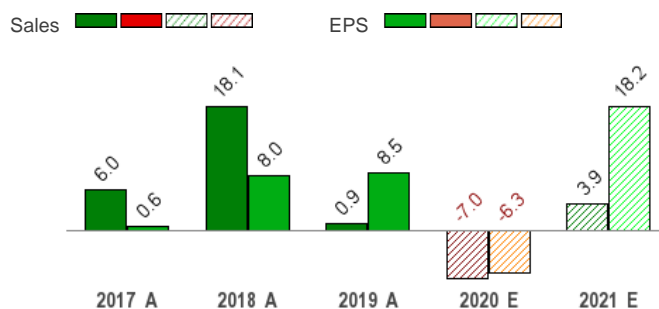
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.78 - \$19.79
20 Day Average Volume (sh)	390,639
Market Cap	\$2.5 B
YTD Price Change	-1.1%
Beta	1.26
Dividend / Div Yld	\$0.74 / 2.0%
Industry	Building Products - Maintenance Service
Zacks Industry Rank	Top 33% (84 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	122.2%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	09/03/2020
Earnings ESP	-44.2%
P/E TTM	16.6
P/E F1	19.4
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,591 E	1,549 E	1,550 E	1,595 E	6,280 E
2020	1,613 A	1,496 A	1,441 E	1,495 E	6,044 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	\$0.48 E	\$0.58 E	\$0.64 E	\$0.65 E	\$2.27 E
2020	\$0.39 A	\$0.60 A	\$0.43 E	\$0.50 E	\$1.92 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 08/17/2020. The reports text is as of 08/18/2020.

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.

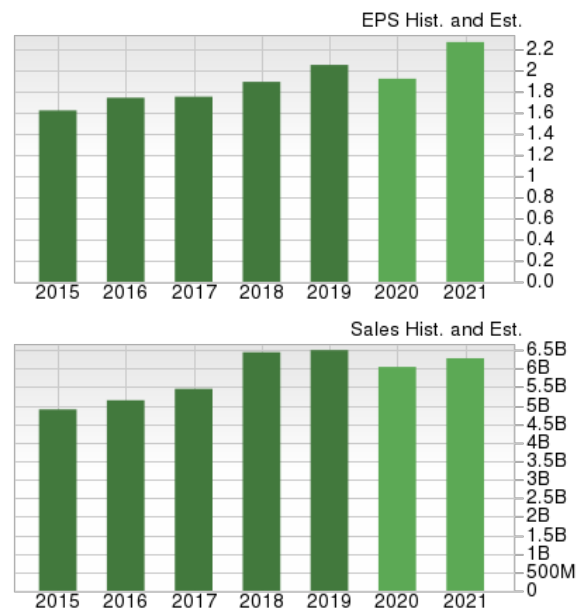
Technology & Manufacturing (14%) provides janitorial, facilities engineering, and parking services for industrial and manufacturing businesses.

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.
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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 4.2% over the past year. The company has incurred \$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. This may weigh on its share price which has declined 4.2% over the past year.
- ▼ ABM Industries has a **debt-laden balance sheet**. Total debt at the end of second-quarter fiscal 2020 was \$1.19 billion, more than \$858.6 million at the end of the prior quarter. Further, the company's cash and cash equivalent of \$555.9 million at the end of the fiscal second quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$87.4 million.

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

Last Earnings Report

ABM Industries Surpasses Q2 Earnings & Revenues Estimates

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

Adjusted earnings from continuing operations came in at 60 cents per share, which outpaced the consensus mark by more than 100% and the year-ago quarter's reported figure by 27.7%. The bottom line benefited from higher margin improvement in Work Orders. Additionally, the company managed its direct labor and related personnel costs well to align with the operating environment and reduced certain corporate expenses such as information technology costs and share-based compensation.

Total revenues of \$1.49 billion beat the consensus estimate by 3.7% but declined 6.2% from the year-ago quarter. The year-over-year decline was due to coronavirus-related disruptions, facility closures, and service scope changes, mainly within the Aviation, Technical Solutions and Education segments. These were, however, partially offset by huge demand for COVID-19 related Work Orders (tags) in the Business & Industry, Technology & Manufacturing and Education segments.

Revenues by Segment

Business & Industry revenues (53% of total revenues) decreased 2.7% year over year to \$785.6 million. Aviation revenues (12%) decreased 26.1% year over year to \$184.7 million. Education revenues (13%) of \$200.1 million decreased 4.4% from the prior-year quarter. Technical Solutions revenues (8%) decreased 10% year over year to \$122.3 million.

Technology & Manufacturing revenues (16%) improved 4.2% year over year to \$233.7 million.

Operating Results

Adjusted EBITDA came in at \$91 million compared with \$84.7 million in the prior-year quarter. Also, adjusted EBITDA margin came in at 6.1% compared with 5.3% in the year-ago quarter.

Adjusted income from continuing operations was \$40.4 million, up 28.3% year over year. Operating expenses decreased 7.6% from the year-ago quarter to \$1.31 billion. Selling, general and administrative expenses increased 10.1% from the year-ago quarter to \$119.4 million.

Balance Sheet & Cash Flow

ABM Industries exited second-quarter fiscal 2020 with cash and cash equivalents of \$555.9 million compared with \$69.8 million at the end of the prior quarter. Long-term debt was \$1.11 billion compared with \$786.3 million at the end of the prior quarter.

Net cash used in operating activities totaled \$162.2 million in the reported quarter. Free cash flow came in at \$154.6 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, to be paid out on Aug 3, 2020, to its shareholders of record as of Jul 2. This marked the 217th consecutive quarterly cash dividend declared by the company.

During the reported quarter, ABM Industries repurchased nearly 0.2 million shares for \$5.1 million. In March 2020, the company had suspended all further share repurchases. As of Apr 30, 2020, the company had \$144.9 million authorized shares available for repurchase under its \$150 million share repurchase program.

Fiscal 2020 Guidance

On Mar 26, 2020, ABM Industries had withdrawn its previously announced fiscal 2020 guidance due to the uncertainty prevailing in the market as a result of the coronavirus outbreak.

Quarter Ending **04/2020**

Report Date	Jun 17, 2020
Sales Surprise	3.67%
EPS Surprise	122.22%
Quarterly EPS	0.60
Annual EPS (TTM)	2.25

Recent News

On **Jul 30, 2020**, ABM Industries announced the appointment of Melanie Kirkwood Ruiz as its chief information officer. He will be reporting directly to ABM's chief strategy and transformation officer, Josh Feinberg.

On **Jul 02, 2020**, ABM Industries announces that it has established an Expert Advisory Council, formed of external leading experts in infectious disease and industrial hygiene. The group will advise on several aspects of ABM's business, including ABM's proprietary EnhancedClean program.

On **Jun 24, 2020**, ABM Industries' subsidiary, ABM Franchising Group, LLC announced that it has won a Bronze Stevie Award in the Customer Service Team of the Year category of the 18th Annual American Business Awards. This reflects the fifth time in ten years the company has been honored by the American Business Awards.

On **Jun 17, 2020**, ABM Industries announced the resignation of executive vice president and chief financial officer, D. Anthony Scaglione. Dean Chin, ABM Industries' current senior vice president, chief accounting officer and corporate controller, will be appointed as interim Chief Financial Officer, effective Jul 1, 2020.

Valuation

ABM shares are up 0.3% in the year-to-date period but down 4.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 37% and 1.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 19.5% and 2.6%, respectively.

The S&P 500 index is up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 16.98X price to forward 12 months' earnings, which compares to 48.56X for the Zacks sub-industry, 30X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.08X and as low as 9.74X, with a 5-year median of 18.57. Our Neutral recommendation indicates that the stock will perform in-line with than the market. Our \$40.00 price target reflects 18.26X 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 F12M	Current	16.98	48.56	30	22.85
	5-Year High	24.08	49.21	30	22.85
	5-Year Low	9.74	18.48	18.68	15.25
	5-Year Median	18.57	29.46	20.95	17.58
P/S F12M	Current	0.4	4.17	4.19	3.7
	5-Year High	0.49	4.77	4.19	3.7
	5-Year Low	0.21	2.4	3.06	2.53
	5-Year Median	0.37	3.15	3.6	3.05
P/B TTM	Current	1.78	8.84	4.48	4.52
	5-Year High	2.73	12.17	6.71	4.56
	5-Year Low	0.88	5.03	3.28	2.83
	5-Year Median	1.7	10.01	5.22	3.74

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
EMCOR Group, Inc. (EME)	Outperform	3
Johnson Controls International plc (JCI)	Outperform	2
Limbach Holdings, Inc. (LMB)	Neutral	3
Rollins, Inc. (ROL)	Neutral	2
ServiceMaster Global Holdings, Inc. (SERV)	Neutral	3
Team, Inc. (TISI)	Neutral	3
Aramark (ARMK)	Underperform	4
SP Plus Corporation (SP)	Underperform	5

Industry Comparison Industry: Building Products - Maintenance Service				Industry Peers		
	ABM	X Industry	S&P 500	ROL	SERV	TISI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	C	C	A
Market Cap	2.49 B	2.49 B	23.75 B	17.98 B	5.36 B	194.79 M
# of Analysts	3	3	14	3	8	1
Dividend Yield	1.98%	0.00%	1.62%	0.58%	0.00%	0.00%
Value Score	A	-	-	F	C	A
Cash/Price	0.22	0.08	0.07	0.01	0.06	0.08
EV/EBITDA	9.53	10.26	13.49	53.10	19.37	10.26
PEG Ratio	NA	12.42	3.03	NA	12.42	NA
Price/Book (P/B)	1.78	1.78	3.18	20.84	2.38	0.89
Price/Cash Flow (P/CF)	10.13	10.13	12.85	56.51	18.92	4.52
P/E (F1)	19.42	46.47	22.17	70.35	46.47	NA
Price/Sales (P/S)	0.39	0.39	2.49	8.55	2.65	0.19
Earnings Yield	5.15%	1.42%	4.32%	1.42%	2.14%	-17.77%
Debt/Equity	0.79	0.77	0.77	0.28	0.77	1.69
Cash Flow (\$/share)	3.68	1.41	6.94	0.97	2.15	1.41
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	3.98%	3.98%	10.44%	12.15%	-8.03%	NA
Proj. EPS Growth (F1/F0)	-6.34%	-34.02%	-5.97%	6.85%	-35.28%	-145.65%
Curr. Cash Flow Growth	2.86%	7.29%	5.22%	7.29%	29.33%	-12.07%
Hist. Cash Flow Growth (3-5 yrs)	10.89%	10.89%	8.52%	12.06%	1.14%	-4.76%
Current Ratio	1.82	1.82	1.33	0.76	2.20	2.11
Debt/Capital	44.21%	43.36%	44.59%	21.94%	43.36%	62.87%
Net Margin	-0.38%	0.09%	10.13%	10.15%	3.26%	-22.66%
Return on Equity	10.10%	9.31%	14.51%	29.41%	5.98%	-9.53%
Sales/Assets	1.67	1.18	0.51	1.18	0.39	1.14
Proj. Sales Growth (F1/F0)	-6.99%	-5.90%	-1.67%	6.54%	-5.90%	-19.33%
Momentum Score	C	-	-	C	A	D
Daily Price Chg	-1.45%	-0.25%	-0.02%	0.26%	-0.25%	-1.09%
1 Week Price Chg	-2.40%	-0.24%	1.09%	-0.24%	-1.26%	18.85%
4 Week Price Chg	6.00%	14.84%	4.83%	14.84%	6.53%	57.04%
12 Week Price Chg	14.46%	39.38%	13.09%	41.67%	39.38%	18.66%
52 Week Price Chg	-4.21%	-4.21%	2.77%	65.02%	-30.08%	-62.72%
20 Day Average Volume	390,639	893,005	1,932,479	933,887	1,025,351	893,005
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	2.49%	0.00%
(F1) EPS Est 4 week change	-1.71%	4.24%	1.80%	13.04%	11.84%	4.24%
(F1) EPS Est 12 week change	24.67%	20.62%	2.88%	20.62%	63.70%	4.24%
(Q1) EPS Est Mthly Chg	-3.25%	6.45%	0.80%	12.90%	15.93%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	A
Momentum Score	C
VGM Score	A

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

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