

Cintas Corporation (CTAS)

\$297.12 (As of 02/12/20)

Price Target (6-12 Months): **\$312.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

Summary

Over the past year, Cintas' shares have outperformed the industry. Improved product offerings, solid customer base and effective implementation of enterprise resource planning system will benefit it in the long run. The company will gain from the G&K Services buyout. Also, a strong cash position and focus on rewarding shareholders handsomely through dividends and share repurchases will work in its favor. In the past 60 days, earnings estimates for fiscal 2020 and fiscal 2021 have been revised upward. However, the stock looks overvalued compared with its industry. If unchecked, higher costs and operating expenses might hurt Cintas' margins and profitability. It is exposed to market risks as it procures raw materials from a wide variety of domestic and international suppliers. Rise in debt levels can increase its financial obligations.

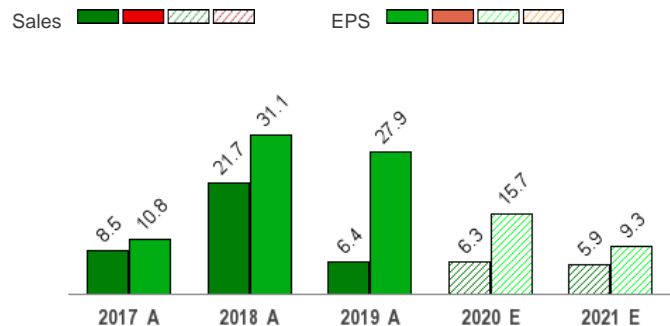
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$297.90 - \$191.91
20 Day Average Volume (sh)	401,288
Market Cap	\$30.8 B
YTD Price Change	10.4%
Beta	0.99
Dividend / Div Yld	\$2.55 / 0.9%
Industry	Uniform and Related
Zacks Industry Rank	Top 2% (4 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.3%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/19/2020
Earnings ESP	0.0%
P/E TTM	35.0
P/E F1	33.8
PEG F1	2.8
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,920 E	1,947 E	1,895 E	2,010 E	7,760 E
2020	1,811 A	1,844 A	1,798 E	1,878 E	7,329 E
2019	1,698 A	1,718 A	1,682 A	1,794 A	6,892 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.42 E	\$2.45 E	\$2.31 E	\$2.53 E	\$9.61 E
2020	\$2.32 A	\$2.27 A	\$2.02 E	\$2.18 E	\$8.79 E
2019	\$1.93 A	\$1.76 A	\$1.84 A	\$2.07 A	\$7.60 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 02/12/2020. The reports text is as of 02/13/2020.

Overview

Founded in 1968 and headquartered in Cincinnati, OH, Cintas Corporation provides specialized services to businesses of all types throughout North America. It also operates in Europe, Asia and Latin America. The company designs, manufactures, implements corporate identity uniform programs, and provides entrance mats, restroom supplies, promotional products and first aid and safety products for diversified businesses.

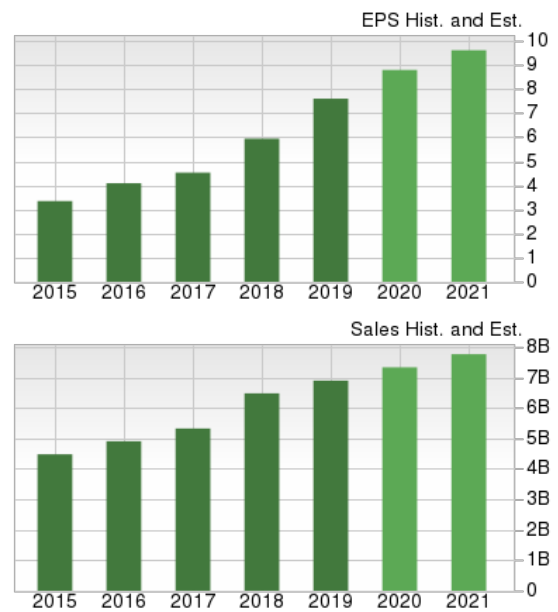
Notably, the company provides products and services through distribution and retail channels to small service and manufacturing companies as well as leading corporations. Exiting fiscal 2019 (ended May 2019), it had approximately 45,000 employees. Also, it had 470 operational facilities, 11 distribution centers and 11,400 local delivery routes.

The company primarily reports revenues under two operating segments — Uniform Rental and Facility Services, and First Aid and Safety Services.

- **Uniform Rental and Facility Services** (79.7% of second-quarter fiscal 2020 revenues): This segment includes rental, and servicing of uniforms, mats and towels as well as the provision for restroom supplies, and other facility products and services. Further, selling items from catalogs to customer routes are reported under this segment.
- **First Aid and Safety Services** (9.2% of second-quarter fiscal 2020 revenues): The First Aid and Safety Services segment includes the sale and servicing of first aid products, safety products and training to customers.

Businesses, with Uniform Direct Sale and Fire Protection Services, are included in **All Other**. Revenues generated from All Other businesses represented 11.1% of second-quarter fiscal 2020 revenues.

It's worth mentioning here that results of First Aid and Safety Services segment and All Other businesses are grouped under Other Services in Cintas' income statement.



Reasons To Buy:

- ▲ Over the past year, Cintas' shares have gained 47.5% compared with 45.3% growth recorded by the industry. The company delivered earnings and sales surprises of 11.3% and 1.2%, respectively, in the second-quarter fiscal 2020. On a year-over-year basis, the bottom line grew 29% on the back of healthy organic sales growth across all of its segments. Successful integration of G&K Services, investment in technology and the company's focus on enhancement of product portfolio and customer base will be advantageous going forward. Also, the company believes that the implementation of a new enterprise resource planning system, namely SAP, will improve efficiency of its business operations. It's worth mentioning here that the company remains well on track to complete the implementation by the end of the fiscal 2020. For fiscal 2020, Cintas anticipates generating revenues in the range of \$7.29-\$7.33 billion, higher than \$7.28-\$7.32 billion predicted earlier and \$6.9 billion reported in fiscal 2019. Further, earnings per share are now predicted to be \$8.65-\$8.75, above \$8.47-\$8.57 guided earlier and \$7.60 reported in fiscal 2019.
- ▲ Acquisitions have been Cintas' preferred mode of business expansion. Notably, the company acquired assets worth approximately \$9.8 million and \$6.6 million (net of cash acquired), in fiscal 2019 and in the first six months of fiscal 2020, respectively. Also, the company's acquisition of G&K Services Inc. (completed in March 2017) expanded its customer profile, strengthened product portfolio and processing capacity as well as improved customer service. It's worth mentioning that the company has progressed well on the integration of its largest acquisition to date, G&K Services, with its Uniform Rental and Facility Services segment. In the second-quarter of fiscal 2020, the company noted that solid revenue growth along with realization of profit synergies from the G&K buyout boosted gross profit by 10% year over year and helped gross margin to improve 110 basis points to 46.2%.
- ▲ Over the years, Cintas has consistently returned significant cash to shareholders through dividends and share repurchases. For instance, in fiscal 2019, the company repurchased common stock worth \$1,016.3 million under its buyback program, way above \$127.3 million in fiscal 2018. Moreover, in the first six months of fiscal 2020, the company repurchased common stock worth \$258.7 million. In addition, in fiscal 2019, the company paid cash dividends of approximately \$220.8 million, an increase of 25.7% over the prior fiscal year. Further, it increased annual dividend rate by 24.4% to \$2.55 in October 2019. Also, Cintas' cash position remains impressive, as evident from 65.8% year-over-year increase in cash flow from operating activities in the first six months of fiscal 2020. For fiscal 2020, the company expects to continue generating strong cash flow. All these factors bode well for Cintas. In addition, analysts have become increasingly bullish about the company over the past 60 days. The company's earnings estimates for fiscal 2020 has increased from \$8.63 to \$8.79, while the same for fiscal 2021 have increased from \$9.47 to \$9.61.

Successful integration of G&K Services, stronger sales and adequate liquidity are likely to strengthen Cintas' competency in the quarters ahead.

Reasons To Sell:

- ▼ On an EV/EBITDA (TTM) basis, Cintas is overvalued compared with the industry, with respective tallies of 20.45x and 17.41x. Notably, the company's multiple is higher than the industry's one-year highest level of 18.99x. This makes us cautious about the stock. Also, escalating cost of sales and expenses have been a major cause of concern for the company. In the last five fiscals (2015-2019), the company's costs of sales increased 8.7% (CAGR) while its selling and administrative expenses escalated 10.4%. Also, in first-quarter fiscal 2020 and second-quarter fiscal 2020, its aggregate cost and expenses jumped 5% and 5.1%, respectively, on a year-over-year basis. The company is exposed to market risks as it procures raw materials from a wide variety of domestic and international suppliers. We believe, if unchecked, escalating costs and expenses will continue hurting the company's margins.
- ▼ Cintas' long-term debt in the last five fiscals (2015-2019) increased 14.3% (CAGR). In the second quarter of fiscal 2020, long-term debt remained roughly stable sequentially at \$2.5 billion. Notably, the stock looks relatively more leveraged than the industry. Its debt/capital ratio is currently 0.46, higher than 0.42 recorded by the industry. We believe that a highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability.
- ▼ Cintas faces stiff competition from national, regional and local companies on various factors such as design, price, quality, service and convenience to customers. Specifically, its first-aid and fire protection services are decidedly commoditized markets and hence, are subject to fierce competition. The company has to continually invest in value drivers to fend off competition, which further weakens profitability.

Escalating costs and expenses, as well as a highly leveraged balance sheet might continue to dent Cintas' profitability in the upcoming quarters.

Last Earnings Report

Cintas Beats Q2 Earnings & Sales Estimates, Ups View

Cintas delivered better-than-expected results for the second quarter of fiscal 2020 (ended Nov 30, 2019). It recorded an earnings beat of 11.27% and sales beat of 1.19% in the quarter under review.

The company's adjusted earnings in the reported quarter were \$2.27 per share, surpassing the Zacks Consensus Estimate of \$2.04. On a year-over-year basis, the bottom line increased 29% from the year-ago figure of \$1.76 on healthy segmental business and margin improvement.

Quarter Ending **11/2019**

Report Date	Dec 17, 2019
Sales Surprise	1.19%
EPS Surprise	11.27%
Quarterly EPS	2.27
Annual EPS (TTM)	8.50

Segmental Sales

In the quarter under review, Cintas' net sales were \$1,843.7 million, reflecting growth of 7.3% from the year-ago quarter. The improvement was driven primarily by organic sales growth of 7.3%.

Further, the top line marginally surpassed the Zacks Consensus Estimate of \$1,822 million.

The company has two reportable segments — **Uniform Rental and Facility Services**, and **First Aid and Safety Services**. Other businesses like Uniform Direct Sale and Fire Protection Services are included in All Other. Quarterly sales data is briefly discussed below.

Revenues from the Uniform Rental and Facility Services segment (representing 79.7% of the reported quarter's net sales) were \$1,470 million, increasing 5.7% year over year. Organic sales were recorded at 5.8%.

Revenues from the First Aid and Safety Services segment (representing 9.2% of the reported quarter's net sales) totaled \$169.7 million, increasing 10.6% year over year. Organic sales in the quarter increased 10.6%.

Revenues from the All Other business (representing 11.1% of the reported quarter's net sales) were \$204.1 million, increasing 17.2% year over year.

Gross Margin

In the quarter under review, Cintas' cost of sales (comprising costs related to uniform rental and facility services as well as others) increased 5.1% year over year to \$991.4 million. It represented 53.8% of net sales compared with 54.9% in the year-ago quarter. Gross profit in the quarter increased 10% year over year and gross margin was up 110 basis points (bps) to 46.2%.

Selling and administrative expenses totaled \$517.9 million, reflecting a 5.3% increase over the year-ago figure. It represented 28.1% of net sales. Operating margin in the quarter expanded 210 bps year over year to 18.1%.

Balance Sheet and Cash Flow

Exiting the quarter, Cintas' cash and cash equivalents were \$226.5 million, up 121.8% from \$102.1 million at the end of the previous quarter. Long-term debt remained more or less unchanged, sequentially, at \$2,538.6 million.

In the first half of fiscal 2020, the company generated net cash of \$571.4 million from operating activities, increasing 65.8% from the year-ago figure. Capital expenditure totaled \$126.2 million, reflecting a year-over-year decline of 8.3%. Free cash flow surged 115.1% year over year to \$445.2 million.

During the first half of fiscal 2020, the company repurchased shares worth \$258.7 million.

Outlook

For fiscal 2020 (ending May 2020), Cintas raised the revenue projection to \$7.29-\$7.33 billion from the previously stated \$7.28-\$7.32 billion. The revised guidance suggests growth of 5.8-6.4% from the year-ago reported figure.

Earnings are predicted to be \$8.65-\$8.75 per share versus \$8.47-\$8.57 stated earlier. This indicates year-over-year growth of 13.8-15.1%.

Recent News

Dividend and Share Buyback

On **Dec 6, 2019**, Cintas paid out a quarterly dividend of \$2.55 to shareholders on record as of Nov 8, 2019.

On **Oct 29, 2019**, Cintas announced that its board of directors approved a 24.4% increase in the annual dividend rate.

Also, the board authorized an additional share buyback program of \$1 billion. As of Oct 29, 2019, the company had the authorization to repurchase \$1.263 billion shares (\$263 million is left from earlier program granted in October 2018).

Valuation

Cintas shares are up 10.4% and 47.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 9.2% and 1.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 45.3% and 10.9%, respectively.

The S&P 500 Index has moved up 4.2% year to date and 21.4% in the past year.

The stock is currently trading at 31.72x forward 12-month earnings per share, which compares to 30.04x for the Zacks sub-industry, 18.58x for the Zacks sector and 19.41x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.72x and as low as 19.11x, with a 5-year median of 25.07x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$312 price target reflects 33.31x forward 12-month earnings per share.

The table below shows summary valuation data for CTAS.

Valuation Multiples - CTAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	31.72	30.04	18.58	19.41
	5-Year High	31.72	30.04	19.89	19.41
	5-Year Low	19.11	17.85	12.6	15.18
	5-Year Median	25.07	24.69	16.62	17.47
EV/EBITDA F12M	Current	19	17.32	17.81	12.66
	5-Year High	19	17.32	18.2	12.66
	5-Year Low	9.8	8.72	10.68	9.08
	5-Year Median	13.32	12.08	14.03	10.79
EV/Sales F12M	Current	4.31	3.82	3.14	3.26
	5-Year High	4.31	3.83	3.14	3.37
	5-Year Low	1.89	1.66	1.76	2.3
	5-Year Median	2.66	2.41	2.28	2.79

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 254)



Top Peers

Guess?, Inc. (GES)	Outperform
Unifirst Corporation (UNF)	Outperform
Acco Brands Corporation (ACCO)	Neutral
Albany International Corporation (AIN)	Neutral
Aramark (ARMK)	Neutral
Ecolab Inc. (ECL)	Neutral
Superior Uniform Group, Inc. (SGC)	Neutral
Canada Goose Holdings Inc. (GOOS)	Underperform

Industry Comparison Industry: Uniform And Related				Industry Peers		
	CTAS Neutral	X Industry	S&P 500	AIN Neutral	SGC Neutral	UNF Outperform
VGM Score	C	-	-	B	B	B
Market Cap	30.83 B	3.90 B	24.53 B	2.39 B	170.71 M	3.90 B
# of Analysts	9	4	13	4	1	4
Dividend Yield	0.86%	0.86%	1.75%	1.03%	3.57%	0.49%
Value Score	D	-	-	C	A	D
Cash/Price	0.01	0.03	0.04	0.07	0.03	0.09
EV/EBITDA	21.27	10.48	13.98	12.31	8.28	10.48
PEG Ratio	2.78	2.06	2.09	1.98	0.87	NA
Price/Book (P/B)	9.90	2.33	3.29	3.40	1.09	2.33
Price/Cash Flow (P/CF)	25.84	14.65	13.69	11.73	6.54	14.65
P/E (F1)	33.80	25.27	19.19	19.41	11.78	25.27
Price/Sales (P/S)	4.32	2.12	2.68	2.27	0.47	2.12
Earnings Yield	2.96%	3.95%	5.21%	5.15%	8.49%	3.95%
Debt/Equity	0.86	0.66	0.71	0.60	0.66	0.02
Cash Flow (\$/share)	11.50	11.50	6.92	6.31	1.71	14.07
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	22.54%	7.76%	10.85%	17.82%	7.76%	6.73%
Proj. EPS Growth (F1/F0)	15.69%	17.81%	7.30%	-7.24%	26.67%	-4.28%
Curr. Cash Flow Growth	27.40%	23.96%	8.56%	25.88%	5.90%	23.96%
Hist. Cash Flow Growth (3-5 yrs)	17.63%	17.63%	8.36%	9.46%	25.39%	6.83%
Current Ratio	1.92	3.19	1.23	3.05	3.19	4.57
Debt/Capital	46.23%	39.89%	42.91%	37.63%	39.89%	1.97%
Net Margin	12.99%	9.89%	11.81%	12.56%	3.76%	9.89%
Return on Equity	30.04%	10.21%	16.92%	20.13%	8.91%	10.21%
Sales/Assets	0.94	0.94	0.54	0.73	1.06	0.91
Proj. Sales Growth (F1/F0)	6.33%	5.51%	3.96%	-1.44%	5.51%	3.20%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	1.24%	0.91%	0.64%	0.49%	-0.36%	0.91%
1 Week Price Chg	4.52%	-1.14%	2.47%	2.98%	-4.86%	-1.14%
4 Week Price Chg	4.38%	-2.23%	1.87%	-5.55%	-20.70%	-2.23%
12 Week Price Chg	14.52%	0.10%	6.69%	-11.50%	-18.50%	0.10%
52 Week Price Chg	47.26%	41.35%	16.42%	-0.46%	-37.83%	41.35%
20 Day Average Volume	401,288	57,247	2,019,212	237,384	17,456	57,247
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.95%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	-2.95%	0.00%	0.00%
(F1) EPS Est 12 week change	2.61%	1.68%	-0.19%	-3.65%	0.00%	1.68%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.16%	0.00%	NA	0.00%

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	D
Growth Score	B
Momentum Score	F
VGM Score	C

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.

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