

Cintas Corporation (CTAS)

\$204.16 (As of 04/17/20)

Price Target (6-12 Months): **\$216.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Cintas will likely benefit from solid product offerings, huge customer base and effective implementation of the enterprise resource planning system in the long run. The company stands to gain from the G&K Services buyout. It remains committed to return significant cash to shareholders through dividends and share repurchases. Moreover, the company's cash position remains impressive, as evident from 39.3% year-over-year increase in cash flow from operating activities in the first nine months of fiscal 2020. However, escalating costs and operating expenses hurt Cintas' margins and profitability. Also, it is exposed to market risks as it procures raw materials from a wide variety of domestic and international suppliers. In the past three months, the stock has underperformed and looks overvalued compared with the industry.

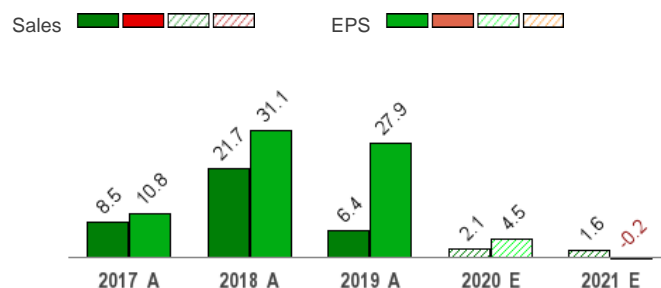
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$304.81 - \$154.33
20 Day Average Volume (sh)	1,218,532
Market Cap	\$21.2 B
YTD Price Change	-24.1%
Beta	1.31
Dividend / Div Yld	\$2.55 / 1.2%
Industry	Uniform and Related
Zacks Industry Rank	Top 11% (27 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-9.1%
Expected Report Date	NA
Earnings ESP	14.5%
P/E TTM	23.2
P/E F1	25.7
PEG F1	2.1
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,678 E	1,768 E	1,786 E	1,729 E	7,151 E
2020	1,811 A	1,844 A	1,811 A	1,593 E	7,036 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	\$1.97 E	\$2.11 E	\$2.09 E	\$1.94 E	\$7.92 E
2020	\$2.32 A	\$2.27 A	\$2.16 A	\$1.23 E	\$7.94 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 04/17/2020. The reports text is as of 04/20/2020.

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.

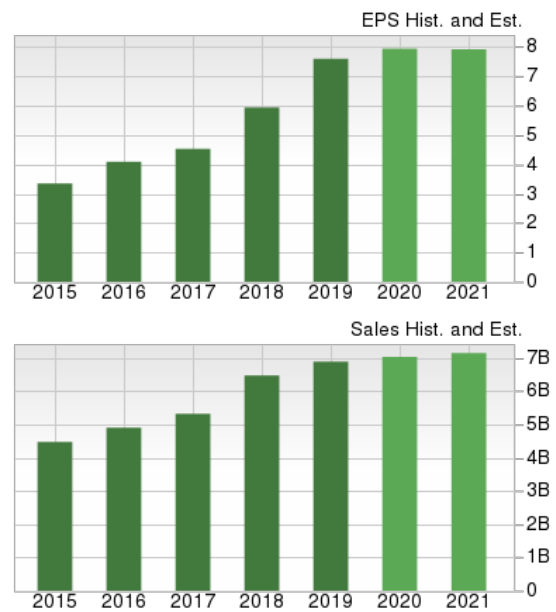
Notably, the company provides products and services through distribution and retail channels to small service and manufacturing companies as well as leading corporations. Exiting fiscal 2019 (ended May 2019), it had approximately 45,000 employees. Also, it had 470 operational facilities, 11 distribution 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** (80% of third-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** (9.4% of third-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 10.6% of third-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:

- ▲ Cintas delivered earnings and sales surprises of 6.9% and 0.8%, respectively, in third-quarter fiscal 2020. On a year-over-year basis, the bottom line grew 17.4% on the back of healthy organic sales growth across all of its segments. In third-quarter fiscal 2020, Cintas' net sales witnessed growth of 7.6% from the year-ago quarter. The improvement was driven primarily by organic sales growth of 5.7%. 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. However, Cintas has not provided its outlook for both fourth-quarter and fiscal 2020 due to the severity and uncertainty of the coronavirus pandemic.
- ▲ Acquisitions have been Cintas' preferred mode of business expansion. Notably, the company acquired assets worth approximately \$9.8 million and \$47.9 million (net of cash acquired), in fiscal 2019 and in the first nine 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 third 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 9.2% year over year and helped gross margin to improve 60 basis points to 45.5%.
- ▲ 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 nine months of fiscal 2020, the company repurchased common stock worth \$261.3 million. In addition, the company paid cash dividends of approximately \$220.8 million in fiscal 2019 and \$268 million in the first nine months of fiscal 2020. Further, it increased annual dividend rate by 24.4% to \$2.55 in October 2019. Also, Cintas' cash position remains impressive, as evident from 39.3% year-over-year increase in cash flow from operating activities in the first nine months of fiscal 2020. Hence, with a robust balance sheet and cash flow profile, the company is well positioned to increase shareholder value in the days to come. All these factors bode well for Cintas.

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

Reasons To Sell:

- ▼ In the past three months, Cintas' shares have decreased 27.6%, compared with the industry's decline of 27.1%. Also, on an EV/EBITDA (TTM) basis, the company is overvalued compared with the industry, with respective tallies of 14.49x and 12.63x. 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 11% (CAGR) while its selling and administrative expenses escalated 13.3%. Also, in second-quarter fiscal 2020 and third-quarter fiscal 2020, its aggregate cost and expenses jumped 5.1% and 6.4%, respectively, on a year-over-year basis. 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 18.2% (CAGR). In the third 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 0.45, 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. In the past 30 days, the company's earnings estimates have been lowered by 2.8% for fiscal 2020 and decreased by 4.3% for fiscal 2021.

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 Q3 Earnings & Revenues Beat Estimates, Up Y/Y

Cintas delivered better-than-expected results for the third quarter of fiscal 2020 (ended Feb 29, 2020). It recorded earnings beat of 6.93% and sales beat of 0.81% in the quarter under review.

The company's adjusted earnings in the reported quarter were \$2.16 per share, which surpassed the Zacks Consensus Estimate of \$2.02. On a year-over-year basis, the bottom line increased 17.4% from the year-ago figure of \$1.84 on healthy segmental business and margin improvement.

Quarter Ending **02/2020**

Report Date	Mar 19, 2020
Sales Surprise	0.79%
EPS Surprise	6.93%
Quarterly EPS	2.16
Annual EPS (TTM)	8.82

Segmental Sales

In the quarter under review, Cintas' net sales were \$1,810.6 million, reflecting growth of 7.6% from the year-ago quarter. The improvement was driven primarily by organic sales growth of 5.7%.

Further, the top line surpassed the Zacks Consensus Estimate of \$1,796 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 80% of the reported quarter's net sales) were \$1,448 million, up 6.6% year over year. Organic sales were recorded at 4.8%.

Revenues from the First Aid and Safety Services segment (representing 9.4% of the reported quarter's net sales) totaled \$170.5 million, up 14.3% year over year. Organic sales in the quarter increased 12.5%.

Revenues from the All Other business (representing 10.6% of the reported quarter's net sales) were \$192.1 million, up 9.9% year over year.

Margin Profile

In the quarter under review, Cintas' cost of sales (comprising costs related to uniform rental and facility services as well as others) increased 6.4% year over year to \$986.2 million. It represented 54.5% of net sales compared with 55.1% in the year-ago quarter. Gross profit in the quarter increased 9.2% year over year and gross margin was up 60 basis points (bps) to 45.5%.

Selling and administrative expenses totaled \$509.7 million, reflecting a 7.1% increase over the year-ago figure. It represented 28.2% of net sales. Operating margin in the quarter expanded 90 bps year over year to 17.4%.

Balance Sheet and Cash Flow

Exiting the quarter, Cintas' cash and cash equivalents were \$234.4 million, up 3.5% from \$226.5 million at the end of the previous quarter. Long-term debt increased marginally, sequentially, to \$2,539.2 million.

In the first nine months of fiscal 2020, the company generated net cash of \$934.5 million from operating activities, up 39.3% from the year-ago figure. Capital expenditure totaled \$189.4 million, reflecting a year-over-year decline of 8.9%. Free cash flow surged 61% year over year to \$745.2 million.

During the first nine months of fiscal 2020, the company repurchased shares worth \$261.3 million.

Outlook

Due to the severity and uncertainty of the coronavirus pandemic, Cintas has not provided any guidance for the fourth quarter of fiscal 2020 (ending May 2020) and has withdrawn the same for fiscal 2020 (ending May 2020).

Valuation

Cintas shares are down 24.1% and 3.2% in the year-to-date period and over the trailing 12 months, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 23.7% and 23.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 2.8% and 22.1%, respectively.

The S&P 500 index has declined 10.8% year to date and 1.7% in the past year.

The stock is currently trading at 21.45x forward 12-month earnings per share, which compares to 24.42x for the Zacks sub-industry, 16.81x for the Zacks sector and 19.53x for the S&P 500 index.

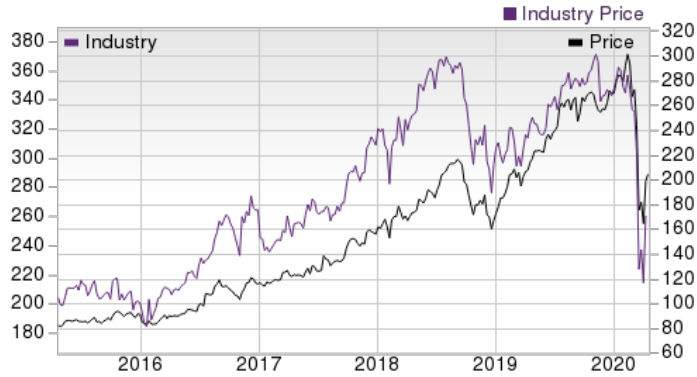
Over the past five years, the stock has traded as high as 32.43x and as low as 18.85x, with a 5-year median of 25.22x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$216 price target reflects 22.69x forward 12-month earnings per share.

The table below shows summary valuation data for CTAS.

Valuation Multiples - CTAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.45	24.42	16.81	19.53
	5-Year High	32.43	29.2	19.93	19.53
	5-Year Low	18.85	17.85	12.55	15.19
	5-Year Median	25.22	24.69	16.65	17.45
EV/EBITDA F12M	Current	16.02	15.21	16.39	12.29
	5-Year High	19.57	16.1	18.05	12.65
	5-Year Low	10.59	8.72	10.56	9.09
	5-Year Median	13.25	12.08	14.07	10.82
EV/Sales F12M	Current	3.09	2.94	2.31	2.59
	5-Year High	4.43	3.88	3.12	3.52
	5-Year Low	1.89	1.66	1.76	2.3
	5-Year Median	2.8	2.43	2.29	2.8

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 11% (27 out of 253)



Top Peers

Acco Brands Corporation (ACCO)	Neutral
Albany International Corporation (AIN)	Neutral
Aramark (ARMK)	Neutral
Ecolab Inc. (ECL)	Neutral
Superior Uniform Group, Inc. (SGC)	Neutral
Unifirst Corporation (UNF)	Neutral
Guess?, Inc. (GES)	Underperform
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 Neutral
VGM Score	B	-	-	A	A	A
Market Cap	21.24 B	3.08 B	19.60 B	1.55 B	112.23 M	3.08 B
# of Analysts	9	4	14	4	1	4
Dividend Yield	1.25%	1.25%	2.17%	1.58%	5.46%	0.61%
Value Score	B	-	-	A	A	A
Cash/Price	0.01	0.07	0.06	0.13	0.07	0.12
EV/EBITDA	15.13	7.97	11.73	6.62	7.41	7.97
PEG Ratio	2.07	1.52	2.19	NA	0.57	NA
Price/Book (P/B)	6.39	1.81	2.67	2.21	0.71	1.81
Price/Cash Flow (P/CF)	17.76	11.57	10.55	7.61	5.49	11.57
P/E (F1)	25.21	24.35	18.18	18.15	7.71	24.35
Price/Sales (P/S)	2.93	1.65	2.08	1.47	0.30	1.65
Earnings Yield	3.89%	4.10%	5.38%	5.50%	12.98%	4.10%
Debt/Equity	0.80	0.66	0.70	0.60	0.66	0.02
Cash Flow (\$/share)	11.50	11.50	7.01	6.31	1.33	14.07
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	23.07%	9.01%	10.92%	20.96%	4.96%	9.01%
Proj. EPS Growth (F1/F0)	4.53%	6.99%	-3.36%	-35.64%	20.25%	-21.54%
Curr. Cash Flow Growth	27.40%	23.96%	5.93%	25.88%	-22.17%	23.96%
Hist. Cash Flow Growth (3-5 yrs)	17.63%	6.83%	8.55%	13.14%	6.03%	6.83%
Current Ratio	2.34	3.05	1.24	3.05	3.05	4.59
Debt/Capital	44.51%	39.76%	42.78%	37.63%	39.76%	1.87%
Net Margin	13.19%	9.06%	11.64%	12.56%	3.20%	9.06%
Return on Equity	30.73%	10.18%	16.74%	20.13%	7.79%	10.18%
Sales/Assets	0.94	0.94	0.54	0.73	1.08	0.90
Proj. Sales Growth (F1/F0)	2.08%	2.08%	-0.14%	-11.67%	4.11%	-5.75%
Momentum Score	D	-	-	F	A	D
Daily Price Chg	7.09%	6.92%	4.04%	5.98%	3.83%	6.92%
1 Week Price Chg	21.01%	21.01%	16.01%	13.48%	16.05%	21.57%
4 Week Price Chg	11.56%	11.56%	18.93%	22.29%	-14.09%	17.12%
12 Week Price Chg	-28.62%	-28.62%	-19.39%	-35.51%	-47.38%	-23.35%
52 Week Price Chg	-4.45%	-4.45%	-11.34%	-34.96%	-59.40%	4.49%
20 Day Average Volume	1,218,532	134,421	3,220,598	325,766	50,446	134,421
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.79%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.08%	-9.08%	-7.09%	-17.09%	0.00%	-17.57%
(F1) EPS Est 12 week change	-9.19%	-9.19%	-9.32%	-30.62%	0.00%	-18.03%
(Q1) EPS Est Mthly Chg	-43.28%	-43.28%	-10.68%	-23.78%	0.00%	-45.28%

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	B
Momentum Score	D
VGM Score	B

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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