Cintas Corporation (CTAS)

$298.28 (As of 07/27/20)

Price Target (6-12 Months): **$343.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/27/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: B | Momentum: B	

Summary

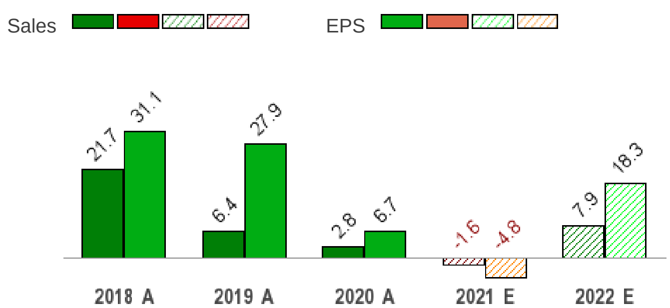
In the past three months, Cintas' shares have outperformed the industry. In fourth-quarter fiscal 2020, it delivered earnings and sales surprises of 9.8% and 4.1%, respectively. Year over year, earnings declined 34.8% on weak sales and a fall in the margin. Going forward, we believe that solid product offerings, investment in technology and buyouts might be beneficial. Policy of rewarding shareholders handsomely might be favorable. For first-quarter fiscal 2021, it anticipates revenues of $1.675-$1.700 billion and earnings of $2.00-$2.20 per share, suggesting improvement from the sequential numbers of $1,619.6 million and $1.35, respectively. However, it refrained from giving fiscal 2021 projections due to the pandemic-related uncertainties. Earnings estimates for fiscal first quarter and fiscal 2021 have gone up in the past seven days.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$311.02 - $154.33
20 Day Average Volume (sh)	475,612
Market Cap	$31.0 B
YTD Price Change	10.9%
Beta	1.44
Dividend / Div Yld	$2.55 / 0.9%
Industry	Uniform and Related
Zacks Industry Rank	Top 8% (19 out of 253)
Last EPS Surprise	9.8%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	8.4%
Expected Report Date	09/22/2020
Earnings ESP	2.0%
P/E TTM	36.8
P/E F1	38.6
PEG F1	3.2
P/S TTM	4.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,822 E	1,861 E	1,854 E	1,781 E	7,521 E
2021	1,702 E	1,756 E	1,758 E	1,762 E	6,969 E
2020	1,811 A	1,844 A	1,811 A	1,620 A	7,085 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$2.45 E	$2.35 E	$2.32 E	$2.30 E	$9.13 E
2021	$2.09 E	$2.01 E	$2.02 E	$1.98 E	$7.72 E
2020	$2.32 A	$2.27 A	$2.16 A	$1.35 A	$8.11 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 07/27/2020. The reports text is as of 07/28/2020.

Overview

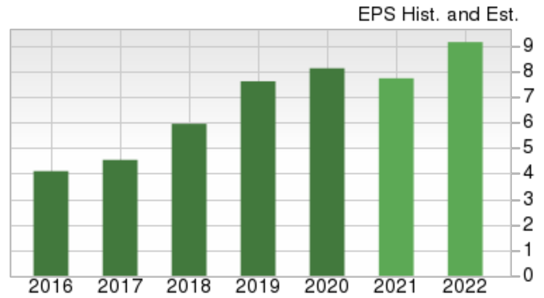
Founded in 1968 and headquartered in Cincinnati, OH, Cintas Corporation provides specialized services to businesses of all types throughout North America. It also operates in Europe, Asia and Latin America. The company designs, manufactures, implements corporate identity uniform programs, and provides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

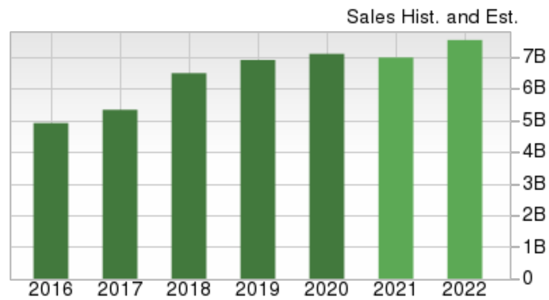
Notably, the company provides products and services through distribution and retail channels to small service and manufacturing companies as well as leading corporations.

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** (78.5% of fourth-quarter fiscal 2020 revenues) 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** (12.1% of fourth-quarter fiscal 2020 revenues) 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 9.4% of fourth-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:

Solid product offerings, investment in technology, acquired assets and shareholder-friendly policies might be beneficial for Cintas, going forward. Projections for first-quarter fiscal 2021 suggest sequential improvement.

- Cintas delivered earnings and sales surprises of 9.8% and 4.1%, respectively, in fourth-quarter fiscal 2020. Benefits from buyouts, investment in technology and the company's focus on enhancement of product portfolio and customer base will be advantageous, going forward. For first-quarter fiscal 2021, it anticipates revenues of $1,675-$1,700 million for the quarter, while earnings are expected to be $2.00-$2.20 per share. The projections for both revenues and earnings suggest improvements from that reported in the fourth quarter of fiscal 2020.

- Acquisitions have been Cintas' preferred mode of business expansion. One of the important acquisitions made by the company is that of G&K Services Inc. This was completed in March 2017 and added to Cintas' Uniform Rental and Facility Services. Since acquired, G&K Services helped strengthen the company's customer profile, product portfolio, processing capacity and customer service. In addition, Cintas invested $53.7 million in acquisitions in fiscal 2020. This reflects an increase from $9.8 million used for buyouts in fiscal 2019.

- Over the years, Cintas has consistently returned significant cash to shareholders through dividends and share repurchases. In fiscal 2020, the company repurchased common stock worth $464.5 million under its buyback program. Also, during the year, it paid out cash dividends of approximately $268 million, higher than $220.8 million in fiscal 2019. It is worth noting here that the company increased the annual dividend rate by 24.4% to $2.55 in October 2019. Also, Cintas' cash position remains impressive, as evident from a 20.9% year-over-year increase in cash flow from operating activities in fiscal 2020. A sound cash flow profile will help the company to continue rewarding its shareholders handsomely.

- In the past three months, Cintas' shares have risen 29.2% compared with the industry's growth of 28.2%. Also, analysts have become increasingly bullish about the company over the past seven days. Its earnings estimates for first-quarter fiscal 2021 have been increased by 2.5% on account of one upward estimate revision versus none downward. In addition, over the same time frame, earnings estimates for fiscal 2021 and fiscal 2022 have been increased by 0.3% and 3.1%, respectively.

Risks

- On an EV/EBITDA (TTM) basis, Cintas is overvalued compared with the industry, with respective tallies of 21.79x and 18.76x. Also, the company's multiple is higher than the industry's three-month highest level of 18.79x. This makes us cautious about the stock. In fourth-quarter fiscal 2020, the company's earnings declined 34.8% year over year on weak sales and a fall in the margin. Organic sales were down 8.4% year over year and reflected adverse impacts of the pandemic. Being wary about the pandemic-related uncertainties, the company refrained from providing any projections for fiscal 2021.

- Escalating cost of sales and expenses have been a major cause of concern for Cintas. In the last five fiscals (2016-2020), the company's costs of sales increased 7.4% (CAGR), while its selling and administrative expenses escalated 9.2%. Notably, in fiscal 2020, its aggregate costs and expenses jumped 3.1%, respectively, on a year-over-year basis. We believe, if unchecked, escalating costs and expenses will likely continue hurting the company's margins. Also, the company 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.

- Cintas' long-term debt in the last five fiscals (2016-2020) increased 19.5% (CAGR). At the end of the fourth quarter of fiscal 2020, long-term debt remained roughly stable sequentially at $2,539.7 million. 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. Having said that, we believe that a highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. Another thing that is concerning is its weak ability to repay its financial obligations. At fourth-quarter fiscal 2020, the company's times interest earned was 11.0x, lower than 12.1x at the end of the previous quarter.

Last Earnings Report

Cintas Q4 Earnings & Sales Beat Estimates, Fall Y/Y

Quarter Ending	05/2020
Report Date	Jul 23, 2020
Sales Surprise	4.10%
EPS Surprise	9.76%
Quarterly EPS	1.35
Annual EPS (TTM)	8.10

Cintas has kept its earnings streak alive in the fourth quarter of fiscal 2020 (ended May 31, 2020). It recorded an earnings beat of 9.8% and a sales beat of 4.1% in the quarter under review.

The company's earnings in the reported quarter were $1.35 per share, surpassing the Zacks Consensus Estimate of $1.23. On a year-over-year basis, the bottom line decreased 34.8% from the year-ago figure of $2.07 on weak sales and a fall in the margin.

For fiscal 2020, the company's earnings were $8.11 per share, surpassing the Zacks Consensus Estimate of $7.98. Also, the bottom line expanded 6.7% year over year.

Revenue Details

In the quarter under review, Cintas' net sales were $1,619.6 million, reflecting a decline of 9.7% from the year-ago quarter. Organic sales in the quarter decreased 8.4% year over year. The pandemic played a spoilsport in the quarter.

Further, the top line surpassed the Zacks Consensus Estimate of $1,556 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 78.5% of the reported quarter's net sales) were $1,271 million, decreasing 11% year over year. Organic sales in the quarter decreased 9.6%.

Revenues from the **First Aid and Safety Services** segment (representing 12.1% of the reported quarter's net sales) totaled $196.3 million, increasing 20% year over year. Organic sales in the quarter increased 21.9%.

Revenues from the **All Other** business (representing 9.4% of the reported quarter's net sales) were $152.3 million, decreasing 24.5% year over year.

For fiscal 2020, the company's net sales were $7.085 billion, surpassing the Zacks Consensus Estimate of $7.02 billion. On a year-over-year basis, net sales increased 2.8%.

Margin Profile

In the quarter under review, Cintas' cost of sales (comprising costs related to uniform rental and facility services as well as others) decreased 6% year over year to $911.8 million. It represented 56.3% of net sales compared with 54.1% in the year-ago quarter. Gross profit in the quarter decreased 14.1% year over year to $707.8 million. Gross margin decreased 220 basis points (bps) year over year to 43.7%.

Selling and administrative expenses totaled $500.4 million, reflecting a 1.5% decline from the year-ago figure. It represented 30.9% of net sales. Operating margin in the quarter decreased 470 bps year over year to 12.8%.

Balance Sheet and Cash Flow

Exiting the quarter, Cintas' cash and cash equivalents were $145.4 million, down 38% from $234.4 million at the end of the previous quarter. Long-term debt remained more or less unchanged sequentially at $2,539.7 million.

In fiscal 2020, the company generated net cash of $1,291.5 million from operating activities, increasing 20.9% from the previous year. Capital expenditure totaled $230.3 million, reflecting a year-over-year decline of 16.8%. Free cash flow increased 34.1% year over year to $1,061.2 million.

During fiscal 2020, the company repurchased shares worth $464.5 million and paid out dividends totaling $268 million.

Outlook

The company is wary about the uncertainties related to the coronavirus outbreak. It refrained from providing any projections for fiscal 2021 (ending May 2021).

However, the company provided projections for the first quarter. It anticipates revenues of $1.675-$1.700 billion for the quarter, while earnings are expected to be $2.00-$2.20 per share.

The projections for both revenues and earnings suggest improvements from that reported in the fourth quarter of fiscal 2020.

Recent News

On **May 12, 2020**, Cintas announced that its business performance have been adversely impacted on account of temporary shutdowns of several of its customers' operational activities due to the coronavirus pandemic. However, it remains committed to protecting the safety, health, and well-being of employees and customers amid the crisis.

Notably, in response to the coronavirus crisis, Cintas has been executing cost-control measures to maintain a healthy capital structure. Some of the actions taken by the company include the reduction of discretionary expenses, reduction of executive officer compensation, implementation of wage freeze and adjustment of its workforce.

Valuation

Cintas shares are up 10.9% in the year-to-date period, while increased 14.5% over the trailing 12 months period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 9.8% and down 6.7% in the year-to-date period, respectively. Over the past year, stocks in the Zacks sub-industry are up 13%, while stocks in the Zacks Industrial Products sector increased 1.2% in the same time frame.

The S&P 500 Index has reflected no change in the year-to-date period and increased 6.9% in the past year.

The stock is currently trading at 40.05x forward 12-month earnings per share, which compares to 35.68x for the Zacks sub-industry, 21.8x for the Zacks sector and 22.49x for the S&P 500 index.

Over the past five years, the stock has traded as high as 41.15x and as low as 16.73x, with a 5-year median of 25.42x. Our Outperform recommendation indicates that the stock will perform better than the market. Our $343 price target reflects 46.05x 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	40.05	35.68	21.8	22.49
	5-Year High	41.15	35.68	21.8	22.49
	5-Year Low	16.73	17.85	12.55	15.25
	5-Year Median	25.42	25.13	16.82	17.52
P/Sales F12M	Current	4.46	3.68	2.82	3.55
	5-Year High	4.54	3.68	2.82	3.55
	5-Year Low	1.72	1.59	1.52	2.53
	5-Year Median	2.55	2.27	2.01	3.02

As of 07/27/2020

Industry Analysis **Zacks Industry Rank:** Top 8% (19 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Acco Brands Corporation **(ACCO)**	Neutral	4
Albany International Corporation **(AIN)**	Neutral	3
Aramark **(ARMK)**	Neutral	3
Guess, Inc. **(GES)**	Neutral	4
Canada Goose Holdings Inc. **(GOOS)**	Neutral	4
Superior Uniform Group, Inc. **(SGC)**	Neutral	3
Unifirst Corporation **(UNF)**	Neutral	3
Ecolab Inc. **(ECL)**	Underperform	5

Industry Comparison Industry: Uniform And Related

	CTAS	X Industry	S&P 500	AIN	SGC	UNF
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	C	-	-	C	A	A
Market Cap	31.04 B	3.47 B	22.74 B	1.68 B	210.58 M	3.47 B
# of Analysts	8	4	14	3	1	4
Dividend Yield	0.85%	0.54%	1.8%	1.46%	0.00%	0.54%
Value Score	F	-	-	B	A	B
Cash/Price	0.00	0.03	0.07	0.13	0.03	0.12
EV/EBITDA	21.75	10.53	13.03	7.26	10.53	9.01
PEG Ratio	3.17	2.66	3.03	NA	1.31	NA
Price/Book (P/B)	9.59	2.03	3.17	2.51	1.33	2.03
Price/Cash Flow (P/CF)	24.73	13.04	12.05	8.25	10.31	13.04
P/E (F1)	38.64	25.99	21.90	18.37	18.33	25.99
Price/Sales (P/S)	4.38	1.87	2.38	1.62	0.55	1.87
Earnings Yield	2.59%	3.85%	4.30%	5.44%	5.45%	3.85%
Debt/Equity	0.82	0.57	0.76	0.73	0.57	0.02
Cash Flow ($/share)	12.06	12.06	7.01	6.31	1.33	14.07
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	22.51%	10.17%	10.85%	23.69%	3.07%	10.17%
Proj. EPS Growth (F1/F0)	-4.82%	-3.29%	-7.56%	-31.06%	-5.06%	-17.11%
Curr. Cash Flow Growth	4.40%	4.40%	5.47%	25.88%	-22.17%	23.96%
Hist. Cash Flow Growth (3-5 yrs)	17.86%	6.83%	8.55%	13.14%	6.03%	6.83%
Current Ratio	2.61	2.86	1.31	3.76	2.86	4.72
Debt/Capital	45.14%	36.15%	44.41%	42.31%	36.15%	1.79%
Net Margin	12.36%	7.70%	10.45%	10.81%	3.40%	7.70%
Return on Equity	27.57%	8.49%	15.13%	19.36%	8.34%	8.49%
Sales/Assets	0.91	0.91	0.54	0.71	1.10	0.88
Proj. Sales Growth (F1/F0)	-1.65%	-1.65%	-2.00%	-12.96%	-3.33%	0.28%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	-1.43%	-0.87%	0.48%	0.15%	-0.87%	0.75%
1 Week Price Chg	8.05%	1.14%	0.37%	-1.16%	-2.12%	1.14%
4 Week Price Chg	13.15%	4.03%	5.61%	-11.15%	3.38%	4.03%
12 Week Price Chg	42.28%	42.28%	13.36%	1.98%	49.46%	11.79%
52 Week Price Chg	14.42%	-5.79%	-3.30%	-33.94%	-19.21%	-5.79%
20 Day Average Volume	475,612	76,011	1,917,592	318,777	31,096	76,011
(F1) EPS Est 1 week change	8.45%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	8.45%	4.05%	0.21%	0.00%	0.00%	4.05%
(F1) EPS Est 12 week change	0.47%	0.47%	-2.00%	7.12%	-21.05%	5.65%
(Q1) EPS Est Mthly Chg	31.27%	24.27%	0.00%	0.00%	0.00%	24.27%

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	F
Growth Score	B
Momentum Score	B
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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