Retirement Suitability Score

F

Very Unsuitable

Cintas Corporation (CTAS)

Updated October 2nd, 2018 by Nick McCullum

Key Metrics

Current Price:	$204	**5 Year CAGR Estimate:**	0.2%	**Volatility Percentile:**	25.6%
Fair Value Price:	$124	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	86.3%
% Fair Value:	165%	**5 Year Valuation Multiple Estimate:**	-8.6%	**Valuation Percentile:**	3.2%
Dividend Yield:	0.8%	**5 Year Price Target**	$182	**Total Return Percentile:**	6.0%

Overview & Current Events

Cintas Corporation is the U.S. industry leader in uniform design, manufacturing, & rental. The company also offers first aid supplies, safety services, and other business-related services. Cintas was founded in 1968 and has grown to a market capitalization of $18 billion and annual revenues of more than $5 billion. Cintas' CEO is Scott Farmer, the son of its founder Richard Farmer. Scott Farmer owns more than 14% of Cintas' stock, which shows that the company's upper management is incentivized to act in the best interests of its shareholders. Cintas qualifies to be a member of the Dividend Aristocrats Index with 35 years of consecutive dividend increases.

In late September, Cintas reported (9/25/18) financial results for the first quarter of fiscal 2019, which ended on August 31st, 2018. In the quarter, revenue increased by 5.4%, with organic revenue growth (which adjusts for the impact of acquisitions and foreign currency exchange rate fluctuations) of 5.2%. Cintas' strong organic revenue growth was driven by robust performance in the First Aid and Safety Services operating segment, which saw organic growth of 9.0% in the three-month reporting period. Moving down the income statement, Cintas Corporation saw operating income increased by 6.5% from last year's first quarter. On the bottom line, net income from continuing operations increased by 31.9% while diluted earnings-per-share increased by 30.3%. Despite reporting excellent financial results, Cintas' stock fell by approximately 7% following its earnings release, which is likely due to its irrationally high valuation multiple prior to the publication of its financial report.

Cintas also increased its 2019 financial guidance with the publication of its first quarter earnings release. The company now expects to generate revenue between $6.75 billion and $6.82 billion (which reflects growth between 5.0% and 5.8% versus fiscal 2018) and earnings-per-share from continuing operations between $7.19 and $7.29 (which reflects growth between 21.0% and 22.7%). We have updated our 2019 earnings-per-share estimate to reflect the midpoint of the company's revised guidance band.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.83	$1.49	$1.68	$2.27	$2.52	$2.79	$3.44	$4.09	$4.17	$7.03	***$7.24***	***$10.64***
DPS	$0.47	$0.48	$0.49	$0.54	$0.64	$0.77	$0.85	$1.05	$1.33	$1.62	***$1.78***	***$2.87***

Cintas has compounded its earnings-per-share at a rate of 7.6% since 2008. Over full economic cycles, we believe the company is capable of delivering continued earnings growth in the range of 8% per year. In fiscal 2018, Cintas is expecting to report earnings-per-share in the range of $7.19 and $7.29 Applying an 8% growth rate to the midpoint of this earnings guidance (which is $7.24) gives a 2024 earnings-per-share estimate of $10.64.

In the near-term, Cintas' growth will be driven by the aforementioned acquisition of G&K Services, which closed in March of 2017. The transaction is anticipated to be accretive to Cintas' earnings in fiscal 2019 and is expected to generate between $130 million and $140 million of annual cost synergies. Importantly, the acquisition was non-dilutive to continuing Cintas shareholders. The acquisition was funded using a combination of existing cash, assumption of existing G&K Services debt, and new debt. The integration has accelerated as of late, with the company stating in its 4Q2018 press release that "*We have now closed nearly all operations necessary to eliminate redundancies, which is 63* *operations to date. Also, all G&K operations have been converted to Cintas operating systems."* We believe exciting opportunities exist to merge the companies into one cohesive business unit.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.7	13.8	17.9	16.6	14.9	16.6	19.4	21.4	21.5	27.2	***27.4***	***17.5***
Avg. Yld.	1.4%	1.9%	1.8%	1.8%	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	***0.8%***	***1.5%***

Cintas' P/E has varied from ~14 to ~27 over the last decade. We believe that excluding 2017's figure makes sense due to the irrationally high valuation assigned to the company at that data point. Ex-2017, Cintas has traded at an average price-to-earnings ratio of 17.5 over the last decade. We believe that this represents a fair price to pay for a company of Cintas' caliber. If the company's valuation reverts to 17.5 times earnings over the next decade, this will introduce a significant 8.6% *per year* headwind to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

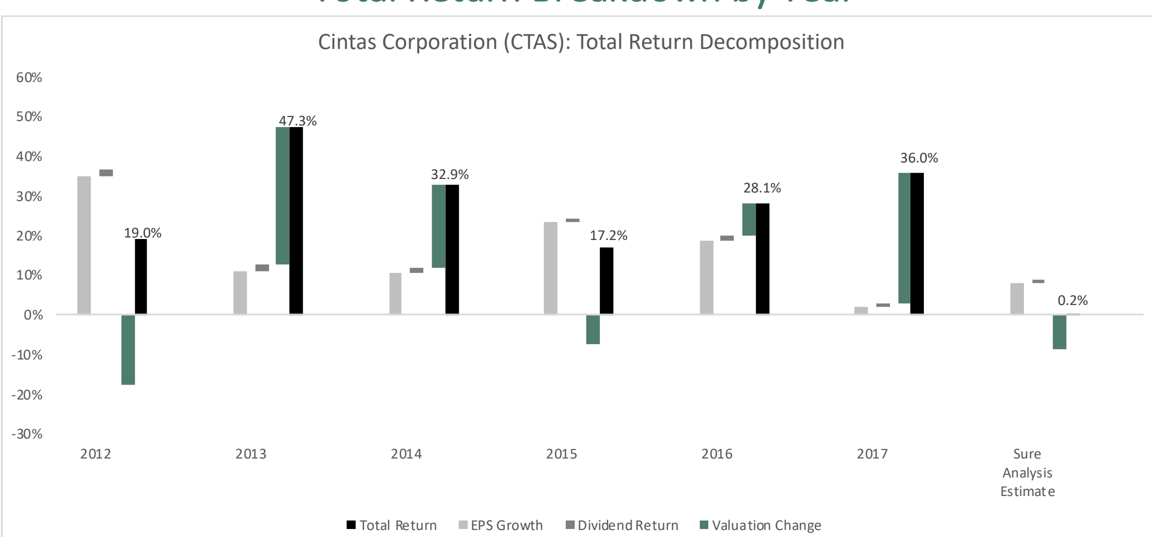
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	44.2%	41.7%	37.7%	37.0%	41.7%	40.3%	39.2%	45.2%	51.3%	34.8%	***40.0%***	***42.0%***
Debt/A	40.8%	36.4%	36.2%	47.1%	48.6%	49.3%	50.9%	53.9%	55.0%	66.4%	***65.0%***	***55.0%***
Int. Cov.	13.3	12.5	8.7	8.4	9.3	7.9	8.7	9.2	10.9	9.0	***9.0***	***11.0***
Payout	21.4%	25.7%	32.2%	29.2%	23.8%	25.4%	27.6%	24.7%	25.7%	31.9%	***27.8%***	***29.2%***
Std. Dev.	45.3%	33.1%	22.5%	32.4%	16.1%	14.6%	18.8%	17.9%	19.4%	17.7%	***18.0%***	***18.0%***

Cintas Corporation's debt as a proportion of its total assets has ballooned following the G&K Services acquisition. Accordingly, we expect the company to focus on debt repayment over the next several years. Conservative investors should also note that Cintas' gross profits as a percent of total assets are quite high, and the company's below-average payout ratio leaves room for continued dividend growth in the event that earnings growth slows.

Final Thoughts & Recommendation

Our recommendation on Cintas remains unchanged from last quarter. While the Cintas *business* may be attractive, we have no doubt that the *stock* is not. Cintas' common stock is grossly overvalued right now. Accordingly, we are placing a strong sell recommendation on this security, and recommending that investors look elsewhere for more appealing investment opportunities. We also note that Cintas earns an F rating for Retirement Suitability, due entirely to its low dividend yield.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.