



# Cintas Corporation (CTAS)

Updated July 18<sup>th</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$386	<b>5 Year CAGR Estimate:</b>	-0.6%	<b>Market Cap:</b>	\$40 B
<b>Fair Value Price:</b>	\$265	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	08/11/21 <sup>1</sup>
<b>% Fair Value:</b>	146%	<b>5 Year Valuation Multiple Estimate:</b>	-7.2%	<b>Dividend Payment Date:</b>	09/15/21
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$355	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	6.8%

## 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 \$40 billion with annual revenues of about \$7.6 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 highly incentivized to act in the best interests of its shareholders. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 38 years of consecutive dividend increases.

Cintas reported fourth quarter and full-year earnings on July 15<sup>th</sup>, 2021, with results coming in slightly better than expected on both the top and bottom lines. Revenue for the fourth quarter was \$1.84 billion, up from \$1.62 billion in the year-ago period. Earnings-per-share nearly doubled to \$2.47, up 85% from \$1.35 in last year's Q4.

Organic revenue was up 11.5%, as the company's Uniform Rental and Facility Services segment saw organic revenue soar 13.7%, which was partially offset by a decline of -6.8% in the much smaller First Aid and Safety segment.

Gross margin in Q4 was \$859 million up from \$708 million in the year-ago period. Gross margin as a percentage of revenue was 310bps higher at 46.8%. That helped operating income soar 72% year-over-year, hitting \$356 million in Q4. As a percentage of revenue, operating income was up 660bp to 19.4%. Gains came from one-time items that occurred in the early stages of the pandemic, including the absence of termination costs, asset impairment charges, incentive compensation, etc. That implies these gains will not be sustainable, and we therefore expect Cintas' operating margins to normalize in fiscal 2022.

The company bought back \$979 million of stock in Q4, and through the middle of July, which is the early part of Q1. Cintas guided for \$7.6 billion in revenue this year, as well as diluted earnings-per-share of \$10.35 to \$10.75; our initial estimate is for \$10.60 in earnings-per-share, reflecting modest growth over 2021's record results.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.27	\$2.52	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.23	<b>\$10.60</b>	<b>\$14.19</b>
<b>DPS</b>	\$0.54	\$0.64	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	<b>\$3.00</b>	<b>\$4.83</b>
<b>Shares<sup>2</sup></b>	127	122	117	112	104	105	106	108	107	104	<b>102</b>	<b>97</b>

Cintas has compounded its earnings-per-share at a rate of about 16% annually since 2012. Over full economic cycles, we believe the company can deliver continued earnings growth in the range of 6% per year. Applying a 6% growth rate to our 2021 estimate of \$10.60 per share gives a 2026 earnings-per-share estimate of \$14.19.

Cintas' two primary growth levers are higher organic revenue and higher margins. Cintas has proven it can grow revenue consistently over the years, and the declines from COVID-19 are well past it at this point. It is also adept at removing cost redundancies, which drives operating margin higher over time. We believe that Cintas will rebound from the

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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current slowdown and get back on its former track. We see Q4 results as supportive of this thesis with outstanding organic revenue growth, and very high operating margins.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.6	14.9	16.6	19.4	21.4	21.5	27.2	25.9	30.8	32.2	36.4	25.0
Avg. Yld.	1.8%	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	0.8%	1.4%

Cintas' price-to-earnings ratio has varied from ~15 to ~37 over the last decade. However, we see fair value at 25 times earnings. This compares unfavorably to the current price-to-earnings ratio of 36.4, which is close to the highest valuation the stock has traded for in the last decade. If the company's valuation reverts to 25 times earnings over the next five years, this will introduce a significant annual headwind to the company's annualized returns. Cintas is one of the more expensive stocks in our coverage universe at 146% of our estimate of fair value.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	24%	25%	28%	25%	26%	32%	27%	31%	27%	28%	34%

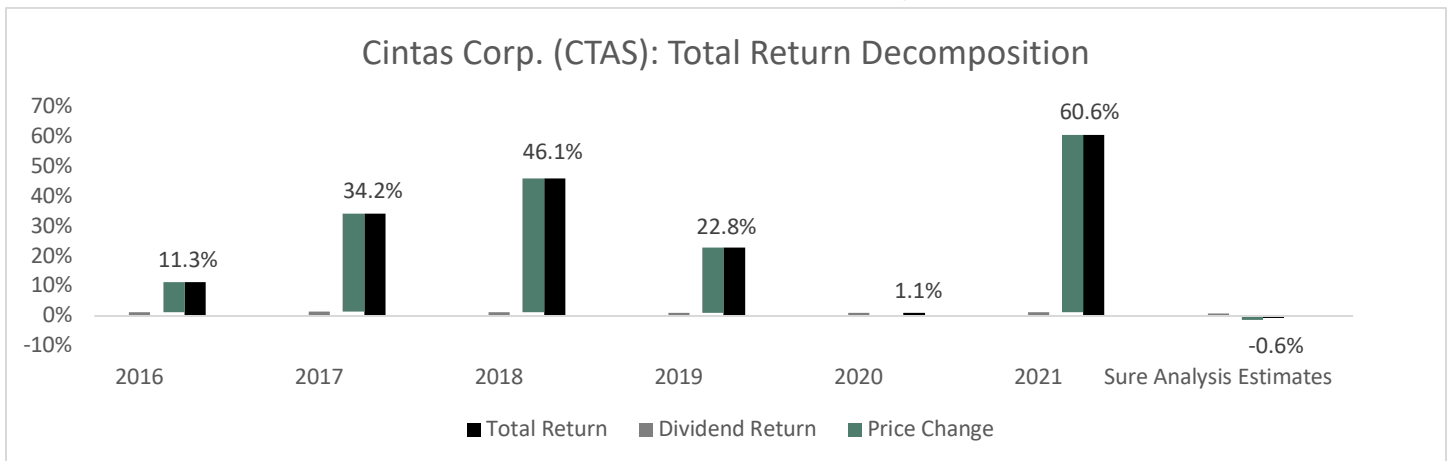
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 35% of earnings for the foreseeable future with years of steady increases on the way.

Cintas' competitive advantage is in its massive size and scale, being the largest company of its kind. It has a huge customer book, and these customers have relatively high switching costs, so retention is strong. However, recessions are not kind to Cintas as it serves businesses, and revenue is dependent upon its customers' headcount. When a recession strikes and unemployment rises, Cintas' earnings will suffer. We note that the slowdown from COVID-19 was better than feared, and that Cintas continues to show signs of being out of it.

## Final Thoughts & Recommendation

Our rating on Cintas remains unchanged from last quarter. The fundamentals of the business are still attractive as the company is performing very well. However, the stock remains quite overvalued in our view, and we expect slightly negative returns to shareholders in the coming years. The company's solid forecasted earnings growth rate could be offset by a headwind from a lower valuation, and the diminutive yield of just 0.8% is not attractive. As a result, we are reiterating our sell rating on the stock.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	4,102	4,246	4,194	4,370	4,796	5,323	6,477	6,892	7,085	7,116
<b>Gross Profit</b>	1,739	1,753	1,750	1,893	2,101	2,380	2,909	3,129	3,234	3,315
<b>Gross Margin</b>	42.4%	41.3%	41.7%	43.3%	43.8%	44.7%	44.9%	45.4%	45.6%	46.6%
<b>SG&amp;A Exp.</b>	1,199	1,187	1,147	1,209	1,332	1,527	1,917	1,981	2,071	1,929
<b>D&amp;A Exp.</b>	194	189	191	155	165	197	279	360	379	388
<b>Operating Profit</b>	540	566	603	684	769	853	992	1,148	1,163	1,385
<b>Operating Margin</b>	13.2%	13.3%	14.4%	15.6%	16.0%	16.0%	15.3%	16.7%	16.4%	19.5%
<b>Net Profit</b>	298	315	374	431	694	481	843	885	876	1,111
<b>Net Margin</b>	7.3%	7.4%	8.9%	9.9%	14.5%	9.0%	13.0%	12.8%	12.4%	15.6%
<b>Free Cash Flow</b>	309	356	460	363	190	491	692	791	1,061	1,217
<b>Income Tax</b>	173	184	199	238	257	230	57	220	182	177

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	4,166	4,346	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237
<b>Cash &amp; Equivalents</b>	340	352	513	417	139	169	139	97	145	494
<b>Accounts Receivable</b>	451	496	508	496	546	736	805	910	870	902
<b>Inventories</b>	251	240	251	226	249	278	280	335	409	1,292
<b>Goodwill &amp; Int. Ass.</b>	1,562	1,610	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322
<b>Total Liabilities</b>	2,027	2,144	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549
<b>Accounts Payable</b>	95	121	150	110	111	177	215	226	231	231
<b>Long-Term Debt</b>	1,285	1,309	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542
<b>Shareholder's Equity</b>	2,139	2,201	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688
<b>D/E Ratio</b>	0.60	0.59	0.59	0.67	0.70	1.36	0.84	0.95	0.79	0.69

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	7.0%	7.4%	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%
<b>Return on Equity</b>	13.4%	14.5%	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%
<b>ROIC</b>	8.5%	9.1%	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%
<b>Shares Out.</b>	127	122	117	112	104	105	106	108	107	104
<b>Revenue/Share</b>	31.55	34.10	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07
<b>FCF/Share</b>	2.38	2.86	3.78	3.08	1.73	4.55	6.31	7.23	9.92	11.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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