



Cintas Corporation (CTAS)

Updated July 15th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$387	5 Year CAGR Estimate:	5.3%	Market Cap:	\$39 B
Fair Value Price:	\$339	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/13/22 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	09/15/22
Dividend Yield:	1.0%	5 Year Price Target	\$475	Years Of Dividend Growth:	39
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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 \$39 billion with annual revenues of about \$8.5 billion. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 39 years of consecutive dividend increases.

Cintas reported fourth quarter and full-year earnings on July 14th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to \$2.81, which was 14 cents ahead of expectations. Revenue was up almost 13% year-over-year to \$2.07 billion, beating estimates by \$70 million.

The company's organic revenue growth rate was 12.7%, as the uniform business was up 10.5%, and the first aid business saw a 15.1% organic growth rate.

Gross margin came to \$946 million, up from \$859 million from the year-ago period. As a percentage of revenue, gross margin was lower, falling 120bps to 45.6%. Operating income as a percentage of revenue was essentially flat at 19.5%, but rose 13.5% on a dollar basis due to the increase in revenue.

Earnings-per-share rose 13.8% year-over-year, again due almost entirely to the revenue increase.

Cintas paid \$98 million in dividends during the quarter, and bought back \$496 million in stock. The company guided for fiscal 2023 revenue of ~\$8.5 billion, and earnings-per-share of \$11.90 to \$12.30. We've initiated estimates accordingly at the midpoint.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.52	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.23	\$11.22	\$12.10	\$16.97
DPS	\$0.64	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	\$3.80	\$3.80	\$6.12
Shares²	122	117	112	104	105	106	108	107	104	102	100	97

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 7% per year. Applying a 7% growth rate to our 2022 estimate of \$12.10 per share gives a 2028 earnings-per-share estimate of \$16.97.

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 see 2022 results and 2023 guidance as supportive of this thesis with outstanding organic revenue growth, and very high operating margins. We also see share repurchases as a meaningful tailwind going forward, as management is spending buyback capital heavily while valuations are low, which we find to be a prudent choice.

¹ Estimated date

² Share count in millions

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.



Cintas Corporation (CTAS)

Updated July 15th, 2022, by Josh Arnold

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.9	16.6	19.4	21.4	21.5	27.2	25.9	30.8	32.2	35.5	32.0	28.0
Avg. Yld.	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	1.0%	1.0%	1.3%

Cintas' price-to-earnings ratio has varied from ~15 to ~39 over the last decade. However, we see fair value at 28 times earnings. This compares unfavorably to the current price-to-earnings ratio of 32, which is down from our last report, but still quite elevated. If the company's valuation reverts to 28 times earnings over the next five years, this will introduce a significant annual headwind to the company's annualized returns. Still, the valuation has moderated such that the premium to fair value is down to 14%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	24%	25%	28%	25%	26%	32%	27%	31%	27%	34%	31%	36%

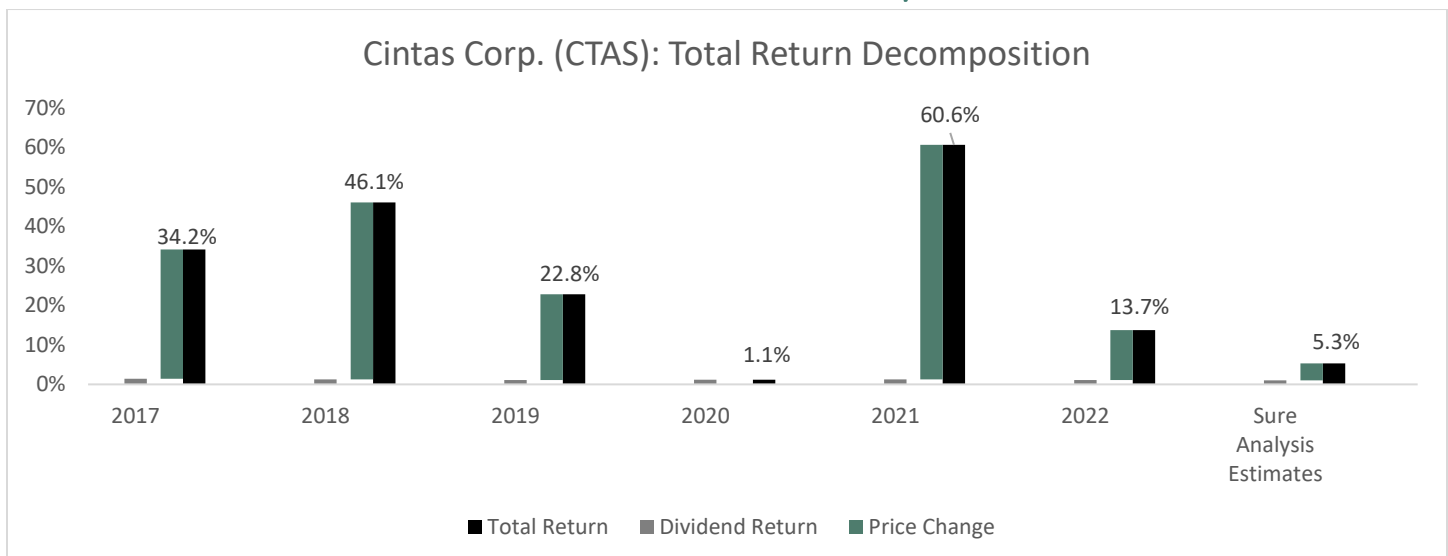
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 40% of earnings for the foreseeable future with years of steady increases on the way.

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 and moving past it.

Final Thoughts & Recommendation

The fundamentals of Cintas are still attractive as the company is performing very well. However, the stock remains overvalued in our view, and we expect modest total 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 1% is not attractive. Still, with the valuation having moderated since our last report, we have upgraded Cintas from sell to hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Cintas Corporation (CTAS)

Updated July 15th, 2022, by Josh Arnold

Income Statement Metrics

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

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,166	4,346	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237
Cash & Equivalents	340	352	513	417	139	169	139	97	145	494
Accounts Receivable	451	496	508	496	546	736	805	910	870	902
Inventories	251	240	251	226	249	278	280	335	409	1,292
Goodwill & Int. Ass.	1,562	1,610	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322
Total Liabilities	2,027	2,144	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549
Accounts Payable	95	121	150	110	111	177	215	226	231	231
Long-Term Debt	1,285	1,309	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542
Shareholder's Equity	2,139	2,201	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688
LTD/E Ratio	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
Return on Assets	7.0%	7.4%	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%
Return on Equity	13.4%	14.5%	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%
ROIC	8.5%	9.1%	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%
Shares Out.	127	122	117	112	104	105	106	108	107	104
Revenue/Share	31.55	34.10	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07
FCF/Share	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.