



Cintas Corporation (CTAS)

Updated December 31st, 2022, by Josh Arnold

Key Metrics

Current Price:	\$452	5 Year CAGR Estimate:	3.3%	Market Cap:	\$46 B
Fair Value Price:	\$357	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/13/23 ¹
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date:	03/15/23
Dividend Yield:	1.0%	5 Year Price Target	\$501	Years Of Dividend Growth:	40
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

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 \$46 billion with annual revenues of about \$8.7 billion. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 40 years of consecutive dividend increases.

Cintas reported second quarter earnings on December 21st, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to \$3.12, which was nine cents ahead of expectations. Revenue was up 13% year-over-year to \$2.17 billion, and was \$40 million ahead of estimates. Organic revenue growth was 12.8% in Q2, which excludes forex and acquisitions/divestitures.

Gross margin was \$1.022 billion, up from \$885 million a year ago. As a percentage of revenue, gross margin was 47%, up from 46% a year ago. Operating income was \$444.9 million, up nearly 17% from last year's Q2. Energy expenses were up only slightly year-over-year, helping remove a headwind that was present for most of the past year. As a percentage of revenue, operating income was 20.5% in Q2, up from 19.8% a year ago.

The company now expects revenue between \$8.67 billion and \$8.75 billion, and for earnings-per-share to be between \$12.50 and \$12.80. We've updated our estimate of earnings-per-share for this year to \$12.75 after a strong second quarter report.

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	\$12.75	\$17.88
DPS	\$0.64	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	\$3.80	\$4.60	\$7.41
Shares²	122	117	112	104	105	106	108	107	104	102	100	96

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 \$12.75 per share gives a 2028 earnings-per-share estimate of \$17.88.

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 relatively 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.



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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	35.5	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%	1.5%

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 35.5, which is up from our last report, and quite elevated by any standard. If the company's valuation reverts to 28 times earnings over the next five years, this will introduce a sizable annual headwind to the company's annualized returns. The valuation is now at a premium to fair value of 27%. We also note the yield is near its historical lows.

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%	36%	41%

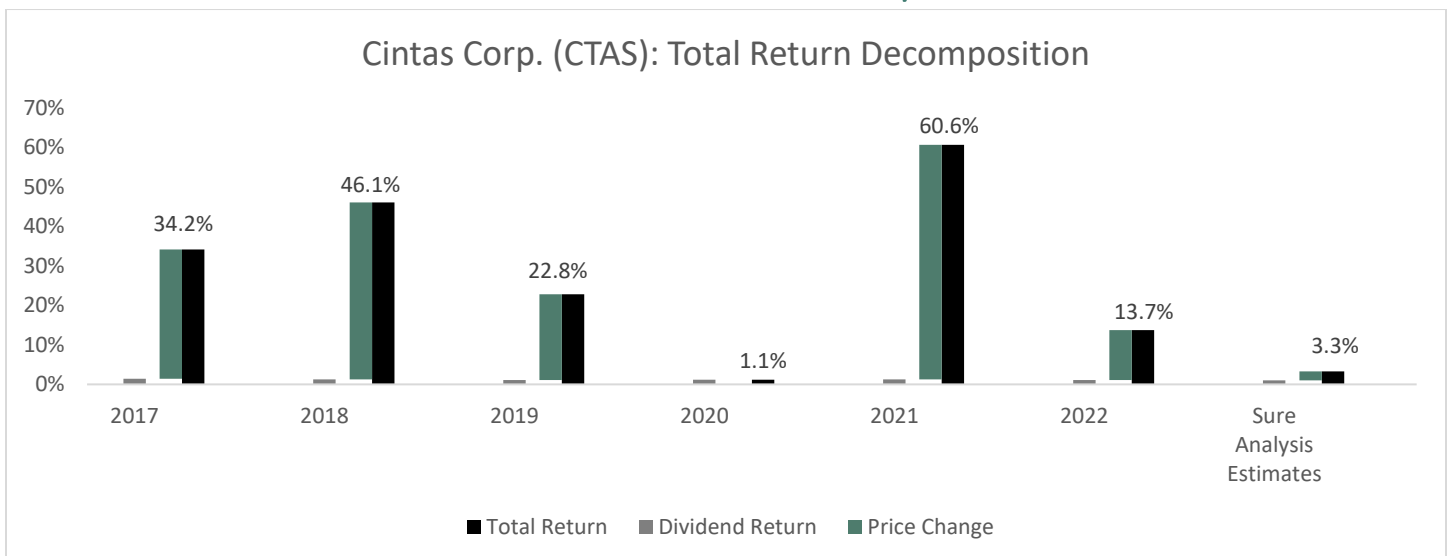
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 45% of earnings for the foreseeable future with years of steady increases on the way.

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 7% earnings growth rate could be offset by a 4.6% headwind from a lower valuation, and the diminutive yield of just 1% is not attractive. The valuation has worsened since our last report, and the decline in projected total returns has us moving the stock from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,246	4,194	4,370	4,796	5,323	6,477	6,892	7,085	7,116	7,854
Gross Profit	1,753	1,750	1,893	2,101	2,380	2,909	3,129	3,234	3,315	3,632
Gross Margin	41.3%	41.7%	43.3%	43.8%	44.7%	44.9%	45.4%	45.6%	46.6%	46.2%
SG&A Exp.	1,187	1,147	1,209	1,332	1,527	1,917	1,981	2,071	1,929	2,045
D&A Exp.	189	191	155	165	197	279	360	379	388	400
Operating Profit	566	603	684	769	853	992	1,148	1,163	1,385	1,587
Operating Margin	13.3%	14.4%	15.6%	16.0%	16.0%	15.3%	16.7%	16.4%	19.5%	20.2%
Net Profit	315	374	431	694	481	843	885	876	1,111	1,236
Net Margin	7.4%	8.9%	9.9%	14.5%	9.0%	13.0%	12.8%	12.4%	15.6%	15.7%
Free Cash Flow	356	460	363	190	491	692	791	1,061	1,217	1,297
Income Tax	184	199	238	257	230	57	220	182	177	263

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,346	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237	8,147
Cash & Equivalents	352	513	417	139	169	139	97	145	494	90
Accounts Receivable	496	508	496	546	736	805	910	870	902	1,006
Inventories	240	251	226	249	278	280	335	409	1,292	1,389
Goodwill & Int. Ass.	1,610	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322	3,435
Total Liabilities	2,144	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549	4,839
Accounts Payable	121	150	110	111	177	215	226	231	231	252
Long-Term Debt	1,309	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542	2,796
Shareholder's Equity	2,201	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688	3,308
LTD/E Ratio	0.59	0.59	0.67	0.70	1.36	0.84	0.95	0.79	0.69	0.85

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.4%	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%	15.1%
Return on Equity	14.5%	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%	35.3%
ROIC	9.1%	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%	20.0%
Shares Out.	122	117	112	104	105	106	108	107	104	105
Revenue/Share	34.10	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07	74.43
FCF/Share	2.86	3.78	3.08	1.73	4.55	6.31	7.23	9.92	11.30	12.29

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

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