



Cintas Corporation (CTAS)

Updated December 24th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$595	5 Year CAGR Estimate:	4.8%	Market Cap:	\$60 B
Fair Value Price:	\$466	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	02/13/24 ¹
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	02/15/24
Dividend Yield:	0.9%	5 Year Price Target	\$716	Years Of Dividend Growth:	41
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 \$60 billion with annual revenues of about \$9.5 billion. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 41 years of consecutive dividend increases.

Cintas reported second quarter earnings on December 21st, 2023, and results were much better than expected on both the top and bottom lines. The company raised guidance for the year as well.

Earnings-per-share came to \$3.61, which was 13 cents ahead of expectations. Revenue was \$2.38 billion, up 9.3% year-over-year and \$40 million better than expected. Revenue guidance was raised from \$9.40 billion to \$9.52 billion to a new range of \$9.48 billion to \$9.56 billion. Diluted earnings-per-share guidance was raised from the prior range of \$14.00 to \$14.45 to \$14.35 to \$14.65.

Organic revenue was up 9.0% year-over-year, which excludes the impacts of acquisitions and forex. Gross margin was \$1.14 billion, up from \$1.02 billion a year ago. As a percentage of revenue, gross margin rose from 47% to 48%. Energy expenses were 40 basis points lower year-over-year, aiding gross margin expansion.

SG&A costs were up 11.1% year-over-year to \$64.4 million, reflecting the increase in investments in selling resources, technology, and other personnel related costs.

Operating income was \$500 million, up 12.3% year-over-year. As a percentage of revenue, operating income was up from 20.5% to 21.0%. We've boosted our earnings-per-share estimate for this year to \$14.55 after strong Q3 results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.23	\$11.22	\$12.99	\$14.55	\$22.39
DPS	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	\$3.80	\$4.60	\$5.40	\$8.70
Shares²	117	112	104	105	106	108	107	104	102	102	102	100

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 9% per year. Applying a 9% growth rate to our 2024 estimate of \$14.55 per share gives a 2029 earnings-per-share estimate of \$22.39.

Cintas' two primary growth levers are higher organic revenue and higher margins. Cintas has proven it can grow revenue consistently over the years. It is also adept at removing cost redundancies, which drives operating margin higher over time. We see 2023 results and 2024 guidance as supportive of this thesis with outstanding organic revenue growth, and very high operating margins. We also see share repurchases as a small tailwind going forward, as management is spending buyback capital heavily while valuations are relatively low, which we find to be a prudent choice. If energy prices trend lower for fiscal 2024 again (as they did again in Q2), that's another tailwind to margins and earnings.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.6	19.4	21.4	21.5	27.2	25.9	30.8	32.2	35.5	36.3	40.9	32.0
Avg. Yld.	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	1.0%	1.0%	0.9%	1.2%

Cintas' price-to-earnings ratio has varied from ~15 to ~36 over the last decade, until this year. However, we see fair value at 32 times earnings. This compares unfavorably to the current price-to-earnings ratio of 40.9, and elevated by any standard. If the company's valuation reverts to 30 times earnings over the next five years, this will introduce a meaningful annual headwind to the company's annualized returns. The valuation is now at a premium to fair value of 28%, which is a higher premium than our last update. We also note the yield is near its historical lows.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	28%	25%	26%	32%	27%	31%	27%	34%	35%	37%	39%

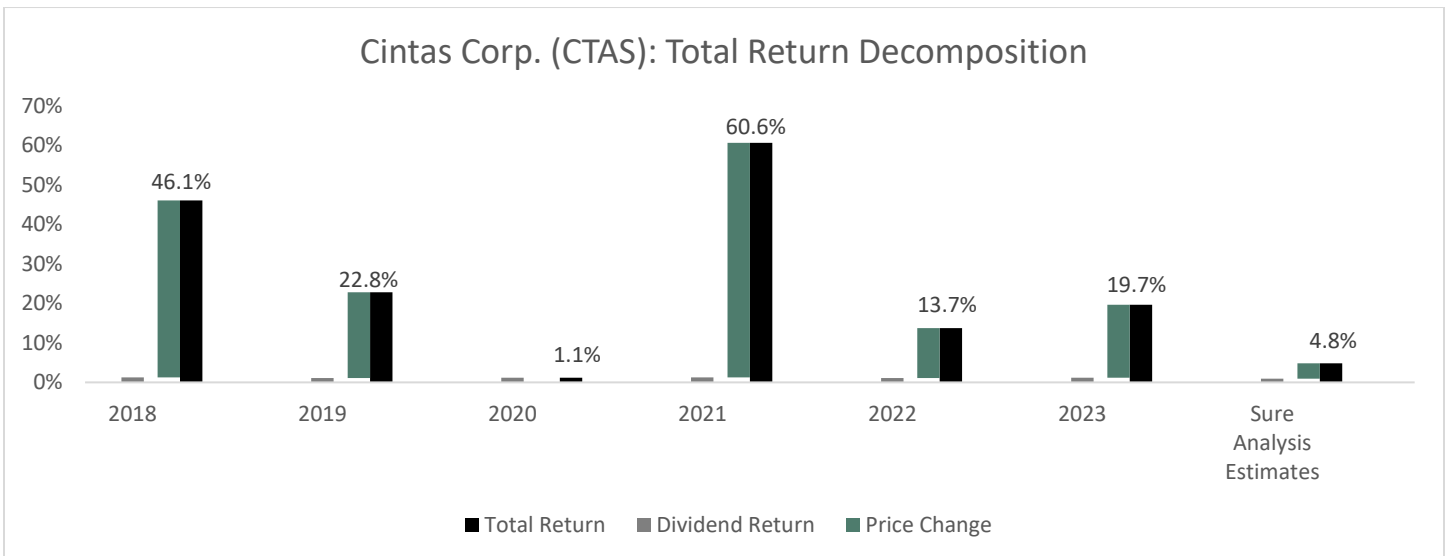
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 40% of earnings for the foreseeable future with years of steady increases on the way.

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 strong forecasted 9% earnings growth rate could be partially offset by a 4.8% headwind from a lower valuation, and the diminutive yield of just 0.9% is not attractive, and much lower than in the recent past. The valuation has deteriorated since our last report, and we continue to rate the stock a hold with total prospective annual returns of 4.8%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,194	4,370	4,796	5,323	6,477	6,892	7,085	7,116	7,854	8,816
Gross Profit	1,750	1,893	2,101	2,380	2,909	3,129	3,234	3,315	3,632	4,173
Gross Margin	41.7%	43.3%	43.8%	44.7%	44.9%	45.4%	45.6%	46.6%	46.2%	47.3%
SG&A Exp.	1,147	1,209	1,332	1,527	1,917	1,981	2,071	1,929	2,045	2,371
D&A Exp.	191	155	165	197	279	360	379	388	400	409
Operating Profit	603	684	769	853	992	1,148	1,163	1,385	1,587	1,803
Operating Margin	14.4%	15.6%	16.0%	16.0%	15.3%	16.7%	16.4%	19.5%	20.2%	20.5%
Net Profit	374	431	694	481	843	885	876	1,111	1,236	1,348
Net Margin	8.9%	9.9%	14.5%	9.0%	13.0%	12.8%	12.4%	15.6%	15.7%	15.3%
Free Cash Flow	460	363	190	491	692	791	1,061	1,217	1,297	1,267
Income Tax	199	238	257	230	57	220	182	177	263	345

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237	8,147	8,546
Cash & Equivalents	513	417	139	169	139	97	145	494	90	124
Accounts Receivable	508	496	546	736	805	910	870	902	1,006	1,153
Inventories	251	226	249	278	280	335	409	1,292	1,389	1,519
Goodwill & Int. Ass.	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322	3,435	3,403
Total Liabilities	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549	4,839	4,682
Accounts Payable	150	110	111	177	215	226	231	231	252	302
Long-Term Debt	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542	2,796	2,486
Shareholder's Equity	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688	3,308	3,864
LTD/E Ratio	0.59	0.67	0.70	1.36	0.84	0.95	0.79	0.69	0.85	0.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%	15.1%	16.2%
Return on Equity	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%	35.3%	37.6%
ROIC	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%	20.0%	21.6%
Shares Out.	117	112	104	105	106	108	107	104	105	103
Revenue/Share	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07	74.43	85.28
FCF/Share	3.78	3.08	1.73	4.55	6.31	7.23	9.92	11.30	12.29	12.25

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

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