



# Cintas Corporation (CTAS)

Updated April 2<sup>nd</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$681	<b>5 Year CAGR Estimate:</b>	2.6%	<b>Market Cap:</b>	\$69 B
<b>Fair Value Price:</b>	\$480	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	05/13/24 <sup>1</sup>
<b>% Fair Value:</b>	142%	<b>5 Year Valuation Multiple Estimate:</b>	-6.8%	<b>Dividend Payment Date:</b>	06/15/24
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$739	<b>Years Of Dividend Growth:</b>	41
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$69 billion with annual revenues of about \$9.6 billion. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 41 years of consecutive dividend increases.

Cintas posted third quarter earnings on March 27<sup>th</sup>, 2024, and results were much better than expected, sending the stock soaring on the report. Earnings came to \$3.84 per share, which was an impressive 26 cents ahead of estimates. Revenue was up 10% year-over-year to \$2.41 billion, beating estimates by \$20 million. The organic revenue growth rate for the quarter, which adjusts for acquisitions, divestitures, forex translation, and differences in the number of workdays, rose 7.7%.

Gross margin was \$1.19 billion, up from \$1.03 billion, or an increase of 14.9%. Gross margin as a percentage of revenue was 49.4%, up from 47.2%. Energy expenses declined 40 basis points from the prior quarter.

Operating income was up 16.6% year-over-year to \$521 million on a combination of both gross margin expansion and revenue growth. Operating income as a percentage of revenue was 21.6%, up from 20.4% a year ago.

Net income was \$398 million, up from \$326 million year-over-year. We have updated our estimate of earnings-per-share to \$15 after yet another quarter of strong revenue and margin growth.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.23	\$11.22	\$12.99	<b>\$15.00</b>	<b>\$23.08</b>
<b>DPS</b>	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	\$3.80	\$4.60	<b>\$5.40</b>	<b>\$8.70</b>
<b>Shares<sup>2</sup></b>	117	112	104	105	106	108	107	104	102	102	<b>102</b>	<b>100</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 9% per year. Applying a 9% growth rate to our 2024 estimate of \$15 per share gives a 2029 earnings-per-share estimate of \$23.08.

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 and expanding operating margins. We also see share repurchases as a small tailwind going forward, as management is spending buyback capital heavily, which we find to be slightly misjudged with the valuation at 45 times forward earnings. If energy prices trend lower for fiscal 2024 again (as they did again in Q3), that's another tailwind to margins and earnings, in addition to the inherent operating leverage afforded by higher organic revenue.

<sup>1</sup> Estimated date

<sup>2</sup> 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 April 2<sup>nd</sup>, 2024, by Josh Arnold

## 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	45.4	32.0
Avg. Yld.	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	1.0%	1.0%	0.8%	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 45.4, and is extremely elevated by any standard. If the company's valuation reverts to 32 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 42%, which is a much higher premium than our last update. We also note the yield is at 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%	36%	38%

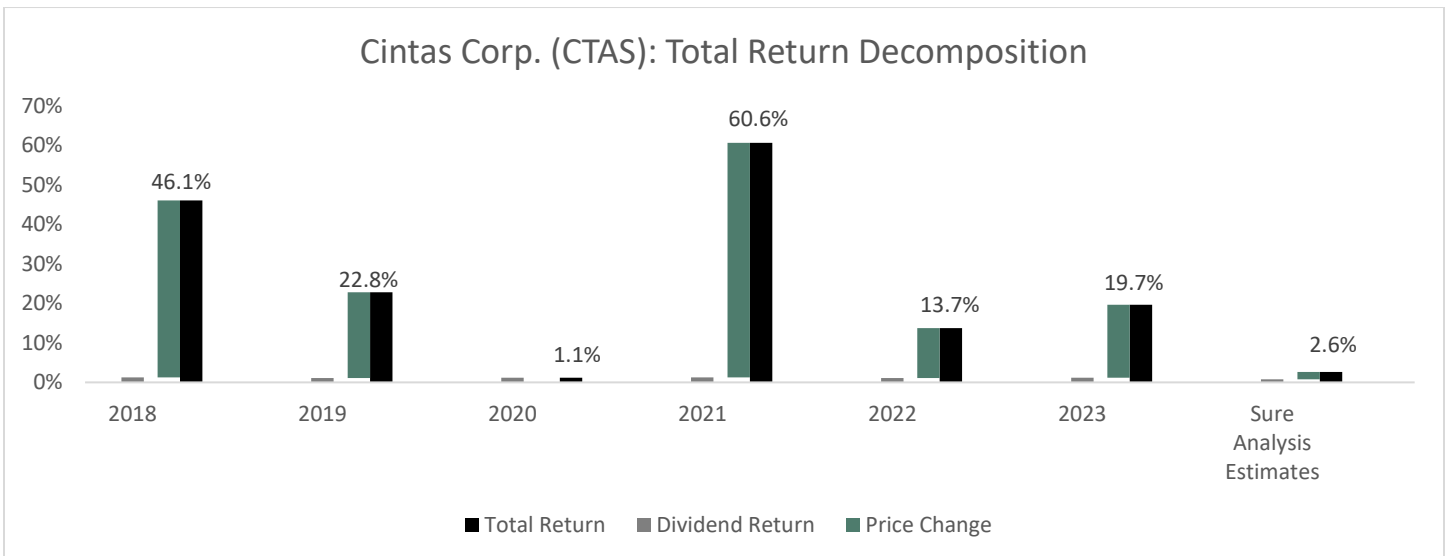
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 40% of earnings for the foreseeable future with years of steady increases on the way.

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 is tremendously overvalued in our view, and we expect minimal total returns to shareholders in the coming years. The company's strong forecasted 9% earnings growth rate could be partially offset by a 6.8% headwind from a lower valuation, and the diminutive yield of just 0.8% is not attractive, and much lower than in the recent past. The valuation has deteriorated again since our last report, and we are reducing the stock from hold to sell.

## 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 April 2<sup>nd</sup>, 2024, by Josh Arnold

## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237	8,147	8,546
<b>Cash &amp; Equivalents</b>	513	417	139	169	139	97	145	494	90	124
<b>Accounts Receivable</b>	508	496	546	736	805	910	870	902	1,006	1,153
<b>Inventories</b>	251	226	249	278	280	335	409	1,292	1,389	1,519
<b>Goodwill &amp; Int. Ass.</b>	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322	3,435	3,403
<b>Total Liabilities</b>	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549	4,839	4,682
<b>Accounts Payable</b>	150	110	111	177	215	226	231	231	252	302
<b>Long-Term Debt</b>	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542	2,796	2,486
<b>Shareholder's Equity</b>	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688	3,308	3,864
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%	15.1%	16.2%
<b>Return on Equity</b>	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%	35.3%	37.6%
<b>ROIC</b>	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%	20.0%	21.6%
<b>Shares Out.</b>	117	112	104	105	106	108	107	104	105	103
<b>Revenue/Share</b>	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07	74.43	85.28
<b>FCF/Share</b>	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.

### 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.