Facility Services

April Uniform Rental Flash Survey - Preview of CTAS Update

Publishing flash survey results from our network of privately held uniform rental providers. We tapped into Baird's network of ~300 industrial launderers to see how trends unfolded during April, as a litmus test behind what Cintas' business update tomorrow could yield for investors. Up to this point, revenue trend information has been scant, ARMK didn't comment on uniform trends specifically on its earnings call last week, and UNF's provided an update on late March trends which were trending -12% but still degrading. We add proprietary context here.

- **Flash survey results - April down 19% on average.** We asked our network one question: How much were your uniform rental revenues down in April on a year-over-year basis. Answer: -19%. However, a couple outliers skew this number higher; excluding, -25%.
- **Survey background.** The April trends flash survey had 14 respondents in a 24-hour period. This is roughly a third of our normal response rate of our typical quarterly surveys. We sample industrial launderers across North America of all sizes.
  - The last full survey we published captured the timeframe immediately preceding the COVID Impact: Another Terrific Uniform Survey; Nobody Cares Plus Some Important Context.Today's flash survey is intended to supplement.
- **Cintas' business update scheduled for Wednesday after market close.** Having reported its February quarter results on March 19, Cintas was (unfortunately) in a weak position to have information, context, and the ability to forecast. It withdrew guidance.
- **Street low estimates for CTAS, not low enough.** We plan to update our model after CTAS' update tomorrow night. We'll be the first to concede our estimates are too high. In fact, the Street low estimate for F4Q20 (May ending quarter) is -15% YOY (Partial COVID impact to March, April/May full impact.)
  - **We believe our survey's -19% average result could prove optimistic** for CTAS due to differences in customer mix between survey respondents and CTAS.
  - **Also, we estimate uniform-wearing employment is -22%**. See here.
- **Negative Fresh Pick.** Baird's Fresh Pick designation allows analyst teams to highlight short-term trading ideas which are believed to be actionable. Given our view of a disconnect between sell side Street estimates and survey results, we're applying a bearish Fresh Pick designation to Cintas' business update release Wednesday night.
- **Specific comments from a few operators**. These are insightful. See page 2.

Prices as of 5/11/2020

Ticker	Price	Mkt Cap (mil)	Rating Current / Prior	Target Current / Prior
ARMK	$24.39	$6,155	N/A	$24
CTAS	$214.38	$23,067	N/A	$175
UNF	$165.32	$3,158	O/A	$164

Sources: Factset and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

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Prices as of 5/11/2020	Market Cap (mil)	Rating	Target	F2019	F2020	F2021
COMPANY TICKER - PRICE		Current Prior	Current Prior	Current Prior	Current Prior	Current Prior
ARAMARK **ARMK - $24.39**	**$6,155**	**N/A**	**24**	**2.22**	**0.39**	**1.63**
Cintas Corporation **CTAS - $214.38**	**$23,067**	**N/A**	**175**	**7.60**	**8.18**	**8.79**
UniFirst Corporation **UNF - $165.32**	**$3,158**	**O/A**	**164**	**9.32**	**6.87**	**7.94**

Details

Comments from survey respondents:

We expect 30% of our customers never to reopen The lost of payments due for services render hurts more than the lost of the customer

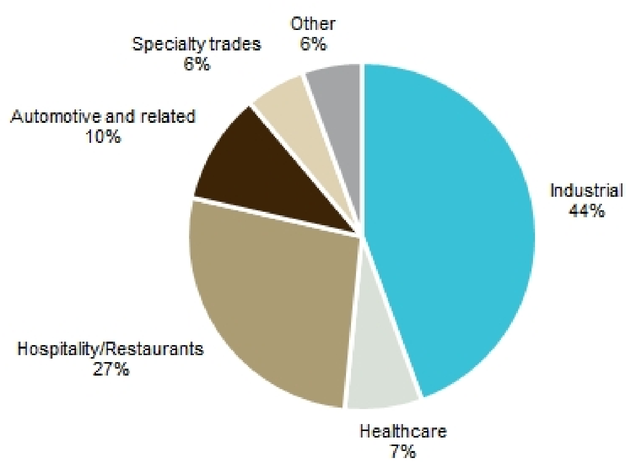
Since our strict lock down has a strict lockdown protocol - we have lost all of our catering revenue (50%) and virtually all of our restaurant business (the other 50%). Every week or so, a restaurant that is doing takeout asks for a couple hundred kitchen towels. We just give them to the restaurant and tell them to throw them out when they are used - our plant is "dark" so we can't process the soiled linen.

Retail is almost all gone. Only Industrial keeping us open.

Reduction in cash flow due to AR expanding in closed as well as operating accounts. Cost to procure PPE and hand sanitizer.

End market representation of today's respondent group

Survey Respondent Profile: Revenue by Service Line (%)



Source: Baird Research

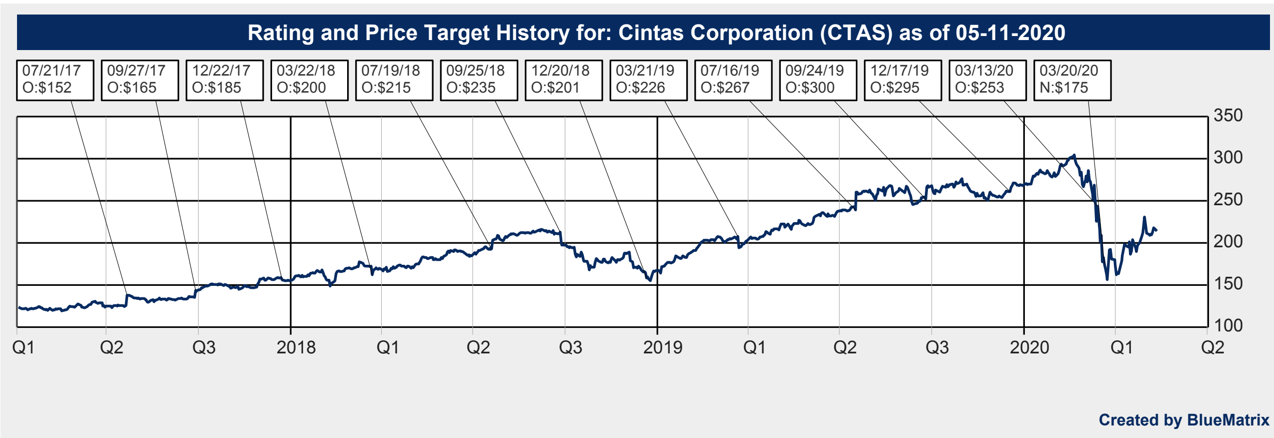
We rate ARAMARK (ARMK) at Neutral. With revenues trending down ~50% and an uncertain path to both timing and robustness of re-opening (particularly for key customers in Education and Sports) keeps us on the sidelines, especially considering above average leverage and softer cash flows. Fortunately, ARMK has been able to limit the margin (decremental margins of 20% are still painful however) and cash flow damage as well as shore up its balance sheet to position the company to weather the storm. It's unclear how ARMK's relative competitive position will fare through this. The prior thesis underpinned by an activist investor creating value through management upgrade, growth investments, and consideration of strategic options is therefore on hold until things settle back down. Our $24 price target assumes an 8.5 FTM EBITDA multiple one year from today. Our multiple assignment is at a discount to the 9.6x historical average since the company's 2014 IPO reflecting the higher uncertainty of the COVID disruption today. We'd like earnings and FCF expectations to take another leg down before becoming more constructive/ aggressive with our multiple assignment. Risks include a highly competitive industry with limited barriers to entry, high labor intensity, risks in certain contract structures (P&L/profit sharing), and supply chain concentration (Sysco).

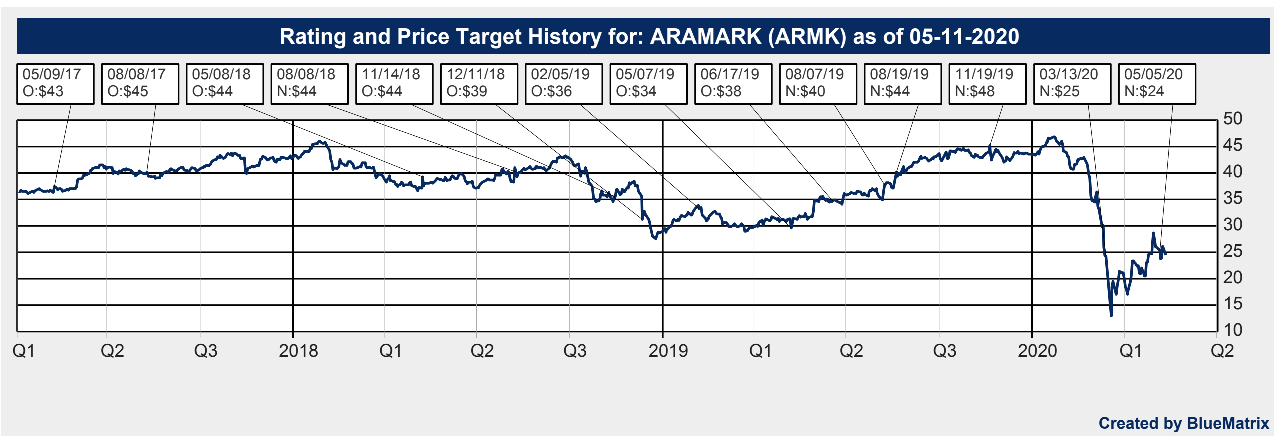
We rate Cintas (CTAS) at Neutral. We see soft/recessionary conditions likely emerging from COVID, taking a toll on employment, with a disproportionately high impact on CTAS' customer base, which skews toward hourly workers. Moreover, CTAS' customers have disproportionate exposure to smaller businesses and are likely to suffer more from COVID's impacts than better capitalized national players (~20% of CTAS revenues). These risks likely weigh on the trading multiple more than estimates, but temper our enthusiasm until better clarity emerges. Undoubtedly CTAS is one of the best businesses and best operated companies we cover, with strong competitive advantages in scale/talent which position it to take share longer term. Our $175 target price reflects 12.5x our FTM EBITDA estimate one year from today and implies 18x EPS, a justified premium (given better growth profile and margins) to service peers where PE multiples have moved back into the mid-teens. We acknowledge the risk of further multiple contraction at CTAS against temporary COVID-related headlines and economic pressures but are reticent to expect multiples to deteriorate into the mid-teens, given the company's strong competitive position and balance sheet and improved business diversification relative to prior cycles. Risks include a highly competitive industry/pricing, employment trends, energy price fluctuations, an SAP conversion process, and high investor expectations.

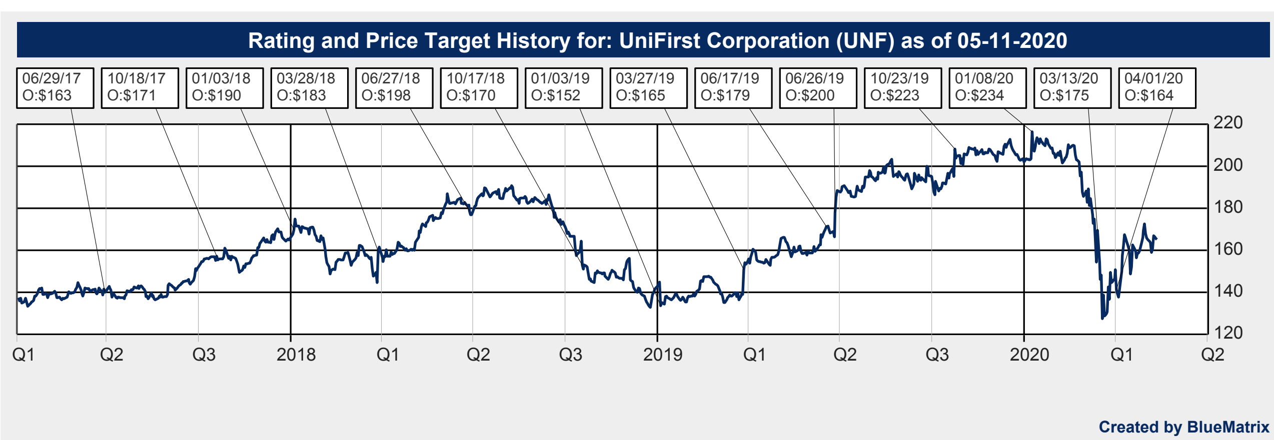
We rate UniFirst (UNF) at Outperform. EPS growth has been muted since 2014 on various factors including pressured top line from the oil bust, systems investment, increased heath care costs, and a balance sheet with dramatically too much cash/equity. Organic revenue did rebound prior to COVID though margin pressures have remained acute primarily on the back of higher labor costs. As a result, margins remain just above relative lows. Important for the current environment, UNF's balance sheet presents massive optionality as well with over $700M of investment potential available. Industry consolidation has made UNF the smallest "large" player and increases the chances of its own sale, in our view (nothing imminent). Shares trade at a substantial discount to peers, especially when adjusted for its massive cash position. Our $164/share price target assumes 9.7x our FTM EBITDA estimate one year from today, generally consistent with the ~10.0x implied at current trading levels today. This multiple is at a discount to current trading multiples at CTAS (in the double-digits), which we believe provides support, especially with the cash balance sheet support. Risks include a competitive industry, employment trends, energy price fluctuations, and a dual class share structure controlled by founding family.

Appendix - Important Disclosures and Analyst Certification

Approved on 12 May 2020 10:02EDT/ Published on 12 May 2020 10:07EDT.







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