



Company Description:

Cintas is the largest player in the ~\$20 billion North American uniform rental and related services industry. The company's Uniform Rental and Facility Services segment launders, presses, and mends customized garments and delivers them to individual employees on a weekly basis. Ancillary items such as entrance mats, sanitation products and other facility services products are also offered on a rental or purchase basis. The First Aid and Safety Services segment delivers and services first aid, safety and OSHA compliance products. The All Other segment includes the servicing/monitoring of fire suppression systems and uniform direct sales. The company acquired G&K services in March 2017, further expanding its market share in uniform rental.

<u>Name</u>	<u>Ticker</u>	<u>Yield</u>	<u>Growth</u>	<u>D + G</u>
Cintas Corporation	CTAS	1.05%	9.50%	10.55%

Highlights:

Cintas continues to report quarters with solid organic revenue upside driving margin leverage, cash flow, and a guidance raise. The recent results were solid despite investments in longer term growth. While price is helping, more of the growth is volume leverage from new customers and cross sell. Prior investments in SAP and routing are two examples aiding performance today. Shares' record ~100% premium to the S&P 500 worth noting, but advantages from scale and strong management with a good growth outlook make us want to be long-term holders.

Bull Case:

- **CTAS has Unprecedented Scale in Uniform Rental and Facility Services** - At near ~3x the scale of its nearest competitor CTAS possess a significant cost advantage which strategically positions the company to capitalize over the long term with its industry-leading growth rate and broader service offering.
- **High-Quality Cyclical Growth Story** - Cintas offers a high-quality franchise posting mid- to high-single-digit organic revenue growth in a typical economy. Further, management's multi-year efforts focusing on product/service innovation and to diversify the business and expand its addressable market appear to be gaining traction/scale to contribute more meaningfully to EPS growth.
- **Other Long-Term Positives** - A multi-year SAP upgrade is in the final stages and will provide opportunity to streamline business processes, lower costs, and give better management and customer insight. Also look for ESG investors to increasingly gravitate to CTAS shares with water/energy/safety all relevant themes.

Bear Case:

- **Highly Competitive Industry** - Each of Cintas' markets is targeted by numerous other local, regional and national competitors. Some competitors may target market share/rental volumes at the expense of margins, eroding industry profitability, particularly during periods of economic weakness.
- **Not Immune to the Economic Cycle** - A drop in employment levels negatively impacts Cintas by decreasing the size of the company's served market, customer retention levels and pricing, which impacts both revenue and profit margins. Indeed, the degree to which negative operating leverage can weigh on margins could catch some investors off guard.
- **Uniform Industry Maturation** - We believe the growth rate of the uniform rental industry has slowed from twice the U.S. GDP growth rate historically to slightly above GDP growth as the penetration rate of uniform rental has increased. Newer markets, outside of garment rental, appear far less penetrated, however, and offer greater long-term opportunity. CTAS has done a better job penetrating these markets versus peers and continues to gain share with HSD organic revenue growth.

Overall Thesis:

Cintas offers high-quality franchise likely to post mid to high single-digit organic revenue growth. Further, management's multi-year efforts focusing on product/service innovation and to diversify the business and expand its addressable market appear to be gaining traction/scale to contribute more meaningfully to EPS growth at above average incremental margins. Scale advantage and ability to cross-sell and penetrate existing customers is made more apparent in these times, not to mention its high customer retention/satisfaction rates which allow for better price adjustments. As a result of these structural advantages, Cintas is thriving comparatively in the inflationary environment. While some bumps may be expected, we expect more of the same in the near-term.



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