

Aramark

(Disinflation) wind beneath its margins

Reiterate Rating: BUY | PO: 34.00 USD | Price: 29.31 USD

F2024 off to a solid start

We were pleased with 1Q's better-than-expected sales growth (organic +12.6% vs. the Street's 10.4%) and operating margins (5.2% vs. the Street's 5.1%). ARMK implicitly raised its 2024 outlook for sales volumes and operating growth (now +17-20% vs. 15-20% prior). The company's new business pipeline is strong giving us confidence that the company can drive healthy sales growth even post the COVID-recovery. Meanwhile, its efficiency and productivity initiatives continue to drive margins expansion (along with a catch up on pricing). We reiterate our Buy rating; we think its growth potential isn't fully priced into shares.

F1Q EPS beats and guidance raised to high-end of range

F1Q's \$0.41 EPS was in line with our \$0.41, but above \$0.36 Visible Alpha consensus. The beat to the Street was on higher sales and margins. ARMK narrowed its FY24 guidance and now expected EPS +30-35% on +7-9% organic sales and 17-20% c\$ EBIT growth (vs. 25-35% on +7-9% organic and 15-20% c\$ EBIT growth). This implies margins expand ~+45-60bp. We raise our FY24 EPS by 4c to \$1.59 and our PO by \$3 to \$34 as we roll forward to 2025. Our revised PO reflects a lower multiple (10x vs. 11x prior) to take into account where peers are trading (at ~10x 2025 EBITDA).

Disinflation story finally begins to materialize

We're bullish on ARMK's margin opportunity as food inflation moderates and pricing is catching up to last year's cost pressures. Exiting F1Q, food costs are running +4-5% down from 4Q's +5-6% exit rate. This contributed to the company's revised margin outlook (and also implies a lower 2024 price increase on the top line). Guidance assumes food inflation says at +4-5% for F2Q-4Q, further disinflation would be a positive for margins.

Capital allocation: thinking beyond the delevering story

ARMK maintained its FY24 guidance for ~3.5x leverage down from 3.9x at year-end FY23. Nearer-term, it sees an opportunity to reduce its cost of debt by refinancing some of its term loans following a good F1Q. The company may consider buybacks or increasing its dividend once it's below 3.5x. We model a dividend increase.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.16	1.70	1.59	2.08	2.43
GAAP EPS	0.75	2.57	1.06	1.80	2.16
EPS Change (YoY)	NM	46.6%	-6.5%	30.8%	16.8%
Consensus EPS (Bloomberg)			1.50	1.89	2.27
DPS	0.44	0.44	0.38	0.46	0.55
Valuation (Sep)					
P/E	25.3x	17.2x	18.4x	14.1x	12.1x
GAAP P/E	39.1x	11.4x	27.7x	16.3x	13.6x
Dividend Yield	1.5%	1.5%	1.3%	1.6%	1.9%
EV / EBITDA*	12.9x	10.6x	12.7x	11.1x	10.0x
Free Cash Flow Yield*	4.0%	4.0%	5.9%	5.5%	6.5%

* For full definitions of *IQmethod*SM measures, see page 4.

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	31.00	34.00
2024E Rev (m)	17,524.3	17,526.9
2025E Rev (m)	18,550.0	18,550.7
2026E Rev (m)	19,585.1	19,584.4
2024E EPS	1.55	1.59
2025E EPS	2.09	2.08

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Stock Data

Price	29.31 USD
Price Objective	34.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	23.55 USD - 31.94 USD
Mrkt Val (mn) / Shares Out (mn)	7,662 USD / 261.4
Free Float	99.3%
Average Daily Value (mn)	63.11 USD
BofA Ticker / Exchange	ARMK / NYS
Bloomberg / Reuters	ARMK US / ARMK.N
ROE (2024E)	12.5%
Net Dbt to Eqty (Sep-2023A)	169.3%

ESGMeter™ High

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Timestamp: 06 February 2024 05:50PM EST

iQprofileSM Aramark

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.0%	6.6%	5.7%	8.6%	9.5%
Return on Equity	10.4%	13.2%	12.5%	16.8%	17.2%
Operating Margin	3.8%	4.9%	4.3%	5.2%	5.7%
Free Cash Flow	306	305	456	419	501

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	1.7x	2.1x	1.6x	1.5x
Asset Replacement Ratio	0.7x	0.8x	1.0x	1.1x	1.1x
Tax Rate	24.0%	20.9%	26.1%	26.0%	26.0%
Net Debt-to-Equity Ratio	233.1%	169.3%	143.9%	116.9%	92.7%
Interest Cover	1.7x	14.4x	2.0x	3.1x	3.6x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,327	18,854	17,527	18,551	19,584
% Change	35.0%	15.5%	-7.0%	5.8%	5.6%
Gross Profit	1,559	1,816	1,521	1,742	1,905
% Change	42.8%	16.5%	-16.2%	14.5%	9.4%
EBITDA	1,204	1,466	1,219	1,396	1,550
% Change	65.0%	21.7%	-16.8%	14.5%	11.0%
Net Interest & Other Income	(373)	(64)	(368)	(314)	(313)
Net Income (Adjusted)	300	446	425	562	665
% Change	NM	48.5%	-4.8%	32.4%	18.3%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	194	674	283	487	592
Depreciation & Amortization	532	546	427	424	437
Change in Working Capital	(109)	(73)	103	(95)	(111)
Deferred Taxation Charge	35	115	1	0	0
Other Adjustments, Net	41	(496)	83	70	77
Capital Expenditure	(388)	(461)	(441)	(467)	(494)
Free Cash Flow	306	305	456	419	501
% Change	22.8%	-0.4%	49.4%	-8.0%	19.6%
Share / Issue Repurchase	49	47	4	0	0
Cost of Dividends Paid	(113)	(115)	(101)	(123)	(150)
Change in Debt	(52)	857	(2,002)	(360)	(526)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	329	1,963	800	727	552
Trade Receivables	2,148	2,364	1,759	1,874	2,006
Other Current Assets	815	893	523	563	648
Property, Plant & Equipment	2,032	2,091	1,607	1,792	1,987
Other Non-Current Assets	9,758	9,561	7,684	7,582	7,484
Total Assets	15,082	16,871	12,372	12,539	12,677
Short-Term Debt	65	1,597	42	42	42
Other Current Liabilities	3,221	3,433	2,833	2,894	2,999
Long-Term Debt	7,346	6,667	5,239	4,880	4,354
Other Non-Current Liabilities	1,412	1,454	1,145	1,145	1,145
Total Liabilities	12,044	13,150	9,259	8,961	8,539
Total Equity	3,038	3,721	3,113	3,587	4,147
Total Equity & Liabilities	15,082	16,871	12,372	12,548	12,687

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

Aramark (ARMK) is the third-largest global provider of food & facilities management services, and the second-largest uniform rental provider in the US. We view its steady business model, seasoned management team, high client retention, upside from global outsourcing, efficiency initiatives, and low- to mid-single-digit revenue growth target as key attributes.

Investment Rationale

Following activist involvement, Aramark instilled new executive leadership in 2019 that reset the organization, boosted the salesforce, and incentivized managers to attract new business. The stock offers a compelling momentum story. We expect multiple expansion as it drives new client growth and delevers.

Stock Data

Average Daily Volume 2,153,196

Quarterly Earnings Estimates

	2023	2024
Q1	0.41A	0.41A
Q2	0.28A	0.27E
Q3	0.36A	0.31E
Q4	0.64A	0.60E

Price objective basis & risk

Aramark (ARMK)

Our \$34 price objective is based on a 10x EV/EBITDA multiple on our CY25 estimate reflecting our confidence in the company's growth and ability to delever. This is a 0.5x premium to its current multiple. We expect multiple expansion as inflation continues to moderate and the company executes on its plan.

Downside risks to our price objective are 1) worse-than-expected or longer disruption from coronavirus, 2) inability over time to recover COVID-impacted revenue, 3) an inability to continue delivering efficiency/margin gains, 4) high financial leverage, and 5) exposure to wage and/or food inflation.

Upside risks to our PO are a move to separate the Uniforms business, valuation expansion driven by headcount expansion and technology investment, the leadership change and activist involvement, better-than-expected net new business wins and/or operating margins, or more rapid deleveraging.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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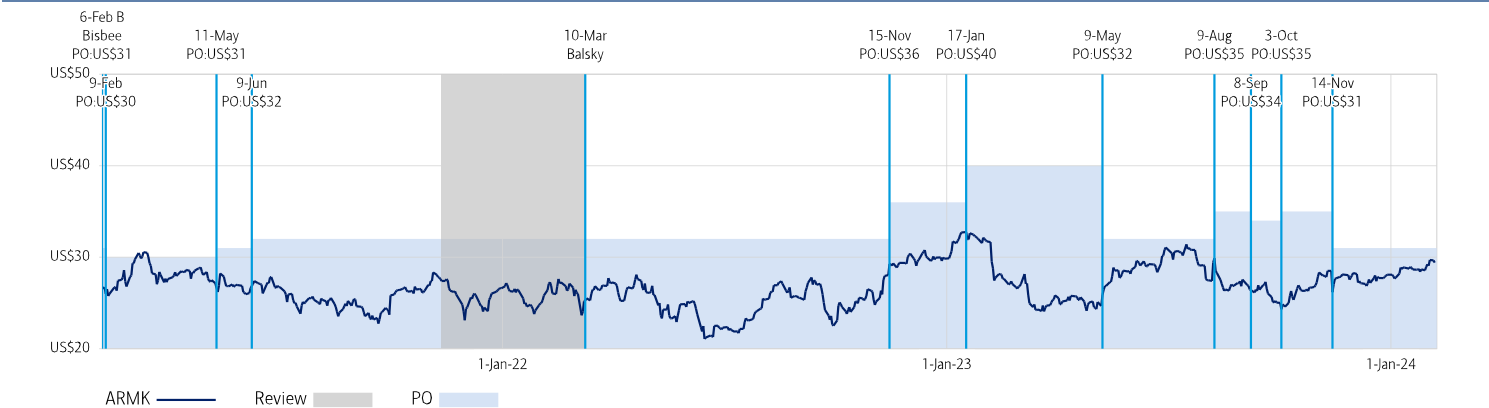
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Aramark (ARMK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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