

Aramark

December's food away from home: +5.2% y/y (vs. 5.3% in November & 5.3% F1Q24)

Maintain Rating: BUY | PO: 31.00 USD | Price: 28.88 USD

December's food away from home decelerates slightly

December's food away from home index y/y growth (seasonally adjusted) decelerated slightly to 5.2% from November's 5.3% (see Exhibit 1). For F1Q24, the index was up 5.3% on average, compared to +6.5% for the quarter ending September 30 (F4Q23) and +7.1% over the last twelve months. This is the ninth consecutive month of deceleration since March 2023's 8.8% peak and bodes favorably for Aramark's margins, in our view.

Further disinflation would be a positive for ARMK margins

F1Q24 food away from home trends point to waning food cost growth for Aramark. F4Q sales included a ~5%E pricing tailwind and guidance is for 3-4% of pricing in FY24 against 5-6% higher food costs. This level of inflation is in line with ARMK's F4Q exit rate. Further moderation in inflationary growth would be a positive for margins, although it would mean slightly lower sales growth because the company would likely take less of a price increase. Deflationary food prices would be a significant positive for margins because Aramark's pricing is sticky. We reiterate our Buy rating; we think its growth potential isn't fully priced in.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.16	1.70	1.55	2.09	2.43
GAAP EPS	0.75	2.57	1.27	1.81	2.16
EPS Change (YoY)	NM	46.6%	-8.8%	34.8%	16.3%
Consensus EPS (Bloomberg)			1.50	1.89	2.27
DPS	0.44	0.44	0.38	0.46	0.55
Valuation (Sep)					
P/E	24.9x	17.0x	18.6x	13.8x	11.9x
GAAP P/E	38.5x	11.2x	22.7x	16.0x	13.4x
Dividend Yield	1.5%	1.5%	1.3%	1.6%	1.9%
EV / EBITDA*	12.8x	10.5x	12.7x	11.0x	9.9x
Free Cash Flow Yield*	4.1%	4.0%	4.6%	6.8%	6.9%

* For full definitions of *IQmethod*SM measures, see page 5.

12 January 2024

Equity

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Stock Data

Price	28.88 USD
Price Objective	31.00 USD
Date Established	14-Nov-2023
Investment Opinion	B-1-7
52-Week Range	23.55 USD - 33.01 USD
Mrkt Val (mn) / Shares Out (mn)	7,550 USD / 261.4
Free Float	99.3%
Average Daily Value (mn)	97.38 USD
BofA Ticker / Exchange	ARMK / NYS
Bloomberg / Reuters	ARMK US / ARMKN
ROE (2024E)	11.3%
Net Dbt to Eqty (Sep-2023A)	169.3%

ESGMeter™ **High**
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Timestamp: 12 January 2024 12:31AM EST

iQprofileSM Aramark

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.0%	6.6%	5.9%	8.1%	9.0%
Return on Equity	10.4%	13.2%	11.3%	14.4%	14.9%
Operating Margin	3.8%	4.9%	4.5%	5.2%	5.7%
Free Cash Flow	306	305	349	510	518

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	1.7x	1.8x	1.6x	1.4x
Asset Replacement Ratio	0.7x	0.8x	0.9x	1.0x	1.0x
Tax Rate	24.0%	20.9%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	233.1%	169.3%	127.1%	102.6%	82.3%
Interest Cover	1.7x	14.4x	2.4x	3.2x	3.7x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,327	18,854	17,524	18,550	19,585
% Change	35.0%	15.5%	-7.1%	5.9%	5.6%
Gross Profit	1,559	1,816	1,595	1,806	1,976
% Change	42.8%	16.5%	-12.2%	13.2%	9.4%
EBITDA	1,204	1,466	1,217	1,406	1,554
% Change	65.0%	21.7%	-17.0%	15.5%	10.5%
Net Interest & Other Income	(373)	(64)	(328)	(303)	(303)
Net Income (Adjusted)	300	446	417	569	669
% Change	NM	48.5%	-6.6%	36.4%	17.7%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	194	674	342	493	597
Depreciation & Amortization	532	546	428	437	445
Change in Working Capital	(109)	(73)	(13)	(70)	(157)
Deferred Taxation Charge	35	115	0	0	0
Other Adjustments, Net	41	(496)	(4)	77	84
Capital Expenditure	(388)	(461)	(403)	(427)	(450)
Free Cash Flow	306	305	349	510	518
% Change	22.8%	-0.4%	14.4%	46.2%	1.6%
Share / Issue Repurchase	49	47	0	0	0
Cost of Dividends Paid	(113)	(115)	(102)	(124)	(151)
Change in Debt	(52)	857	(1,594)	(360)	(526)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	329	1,963	473	499	340
Trade Receivables	2,148	2,364	2,113	2,237	2,388
Other Current Assets	815	893	818	866	968
Property, Plant & Equipment	2,032	2,091	1,574	1,725	1,888
Other Non-Current Assets	9,758	9,561	7,652	7,550	7,452
Total Assets	15,082	16,871	12,630	12,877	13,037
Short-Term Debt	65	1,597	1,597	1,597	1,597
Other Current Liabilities	3,221	3,433	2,646	2,748	2,844
Long-Term Debt	7,346	6,667	3,573	3,213	2,687
Other Non-Current Liabilities	1,412	1,454	1,117	1,117	1,117
Total Liabilities	12,044	13,150	8,934	8,675	8,246
Total Equity	3,038	3,721	3,697	4,202	4,791
Total Equity & Liabilities	15,082	16,871	12,630	12,877	13,037

* For full definitions of iQmethodSM measures, see page 5.

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

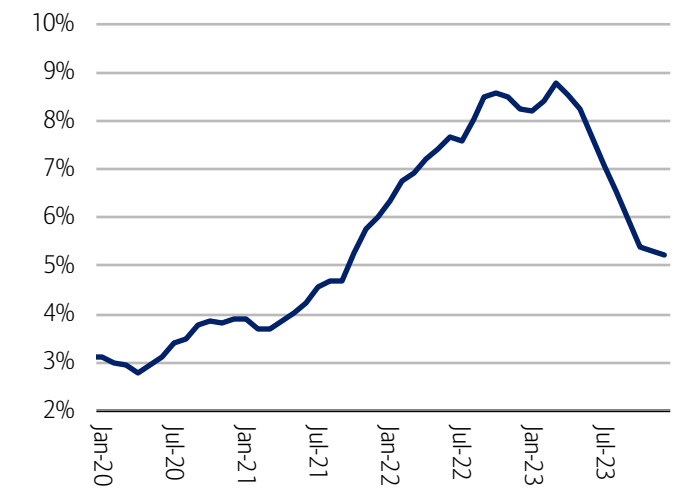
3,371,782

Quarterly Earnings Estimates

	2023	2024
Q1	0.41A	0.41E
Q2	0.28A	0.24E
Q3	0.36A	0.29E
Q4	0.64A	0.60E

US CPI Food Away from Home

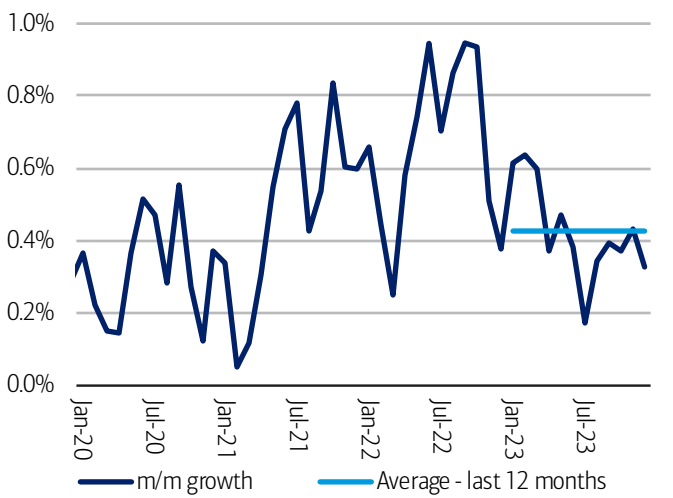
Exhibit 1: US CPI Food Away from Home y/y growth (seasonally adjusted)
The food away from home index was 5.2% y/y in December 2023, compared to 5.3% and 5.4% in November and October



Source: Bloomberg (Bureau of Labor Statistics)

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Exhibit 2: CPI Food Away from Home m/m growth (seasonally adjusted)
Food away from home ticked up 33bp m/m in December, slightly below the m/m 43bp increase over the prior 12 months



Source: Bloomberg (Bureau of Labor Statistics)

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Price objective basis & risk

Aramark (ARMK)

Our \$31 price objective is based on a 11x EV/EBITDA multiple on our CY24 estimate reflecting our confidence in the company's turnaround momentum. This is a half-turn discount to its top peer. We think a modest discount is warranted to reflect Aramark's higher growth but lower debt.

We value on CY24 estimates because Aramark is still recovering from COVID-related disruption. We think EV/EBITDA is the best valuation methodology because of Aramark's elevated leverage post-COVID. Valuation had begun to improve in CY19 with news of activist involvement and the change in management, reaching nearly 12x EBITDA, but then COVID hit.

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

US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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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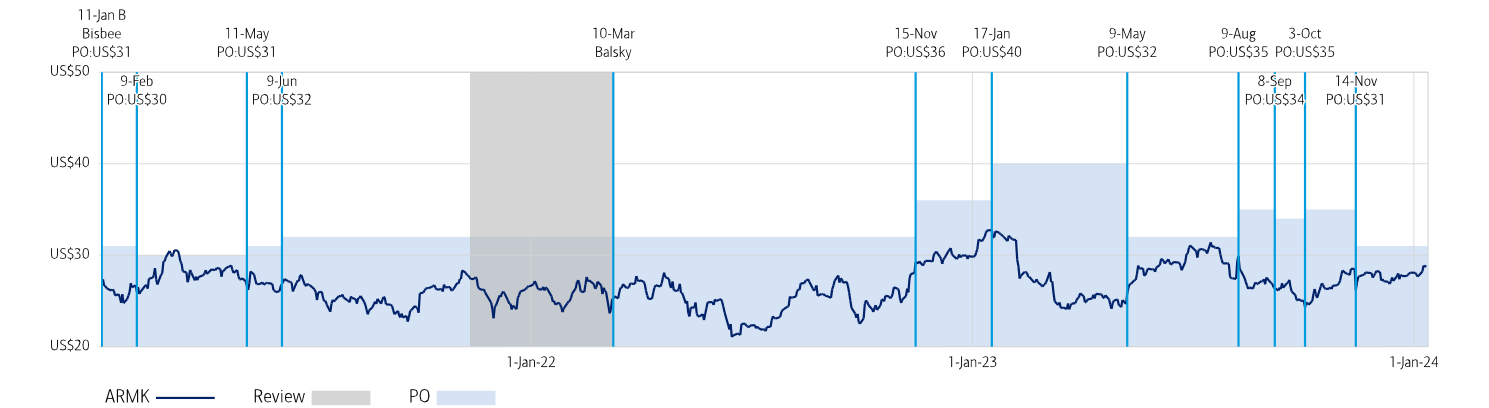
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Aramark (ARMK) Price Chart



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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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