

## Aramark

# February's food away from home: +4.5% y/y (vs. 5.1% in January & 5.3% F1Q24)

Maintain Rating: BUY | PO: 34.00 USD | Price: 31.79 USD

## February's food away from home costs took a step down

February's food away from home index y/y growth (seasonally adjusted) moderated to 4.5% from January's 5.1% (see Exhibit 1). This was a material step down and the 11th consecutive month of deceleration since March 2023's 8.8% peak. Quarter to date (since December 2023), the index is up 4.8% on average, compared to 5.3% in F1Q24 and +8.5% for the F2Q23. We note that food away from home data is a relatively good proxy directionally for the Aramark's food costs, although it is a lagging indicator (according to management). Notably, management has commented that food costs have started to ease in C2024, and we are finally seeing it in the CPI data in February. Moderating inflation bodes favorably for the company's margins. We maintain our Buy rating; we think that its growth potential is not fully priced in.

## F2024 off to good start, with disinflation boosting margins

With its earnings on February 6, Aramark updated its FY24 guidance to reflect easing food inflation. According to management, food costs are running +4-5% exiting F1Q24, down from the F4Q23 exit rate of ~5-6%. (Aramark's guidance assumes that food inflation persists at the current level for the remainder of the year). Compass (covered by BofA Global Research's Simona Sarli) also called out easing food inflation on its February 8th call. Further disinflation would be an incremental positive for margins but 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.

12 March 2024

### Equity

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### Stock Data

Price	31.79 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
Mkt Val (mn) / Shares Out (mn)	8,310 USD / 261.4
Free Float	99.3%
Average Daily Value (mn)	80.64 USD
BofA Ticker / Exchange	ARMK / NYS
Bloomberg / Reuters	ARMK US / ARMKN
ROE (2024E)	12.5%
Net Dbt to Eqty (Sep-2023A)	169.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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)			1.58	1.96	2.34
DPS	0.44	0.44	0.38	0.46	0.55
Valuation (Sep)					
P/E	27.4x	18.7x	20.0x	15.3x	13.1x
GAAP P/E	42.4x	12.4x	30.0x	17.7x	14.7x
Dividend Yield	1.4%	1.4%	1.2%	1.4%	1.7%
EV / EBITDA*	13.4x	11.0x	13.3x	11.6x	10.4x
Free Cash Flow Yield*	3.7%	3.7%	5.5%	5.0%	6.0%

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

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Timestamp: 12 March 2024 03:13PM EDT

# iQprofile<sup>SM</sup> Aramark

## iQmethod<sup>SM</sup> – 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

## iQmethod<sup>SM</sup> – 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)
<b>Net Income (Adjusted)</b>	<b>300</b>	<b>446</b>	<b>425</b>	<b>562</b>	<b>665</b>
<b>% Change</b>	<b>NM</b>	<b>48.5%</b>	<b>-4.8%</b>	<b>32.4%</b>	<b>18.3%</b>

## 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)
<b>Free Cash Flow</b>	<b>306</b>	<b>305</b>	<b>456</b>	<b>419</b>	<b>501</b>
<b>% Change</b>	<b>22.8%</b>	<b>-0.4%</b>	<b>49.4%</b>	<b>-8.0%</b>	<b>19.6%</b>
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
<b>Total Assets</b>	<b>15,082</b>	<b>16,871</b>	<b>12,372</b>	<b>12,539</b>	<b>12,677</b>
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
<b>Total Liabilities</b>	<b>12,044</b>	<b>13,150</b>	<b>9,259</b>	<b>8,961</b>	<b>8,539</b>
<b>Total Equity</b>	<b>3,038</b>	<b>3,721</b>	<b>3,113</b>	<b>3,587</b>	<b>4,147</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,082</b>	<b>16,871</b>	<b>12,372</b>	<b>12,548</b>	<b>12,687</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 2,568,588

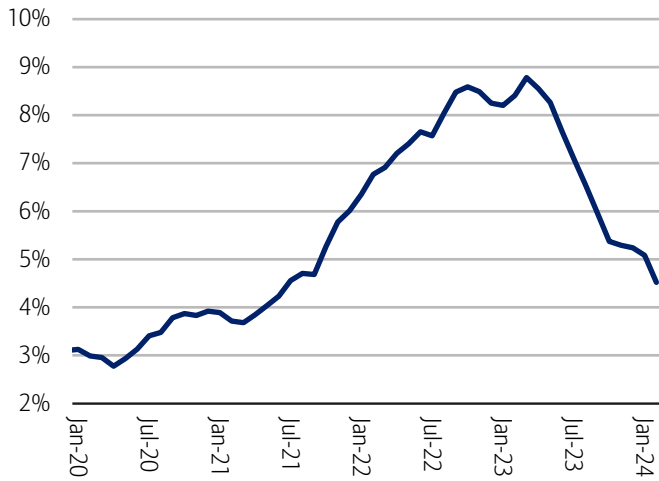
## Quarterly Earnings Estimates

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

## 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 4.5% y/y in February 2024, compared to 5.1% and 5.2% in January and December

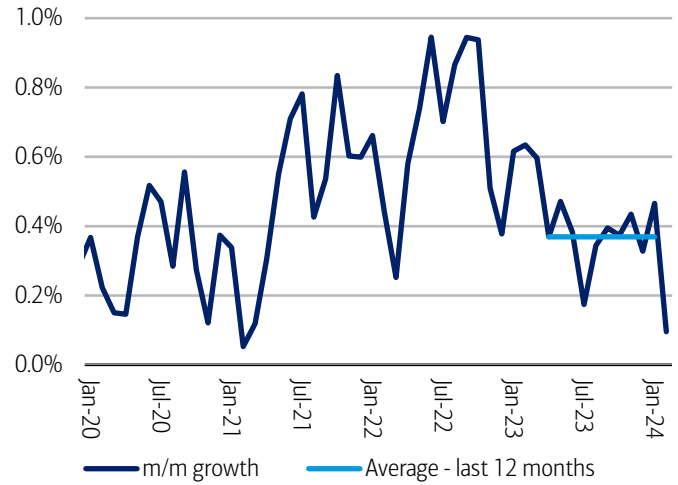


Source: Bloomberg (Bureau of Labor Statistics)

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### Exhibit 2: CPI Food Away from Home m/m growth (seasonally adjusted)

Food away from home ticked up 10bp m/m in February, below the m/m 37bp increase over the prior 12 months



Source: Bloomberg (Bureau of Labor Statistics)

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## 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

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	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
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL 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
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
<b>UNDERPERFORM</b>				
	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

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### 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

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### 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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### 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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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 <sup>R1</sup>	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 <sup>R1</sup>	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%

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Underperform	N/A	≥ 20%

<sup>R2</sup>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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