Cintas Corporation (CTAS) Q1 2020 Results - Earnings Call Transcript

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EPS of $2.32 beats by $0.17 | Revenue of $1.81B (6.66% Y/Y) beats by $19.31M

Earning Call Audio

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Cintas Corporation (NASDAQ:CTAS) Q1 2020 Earnings Conference Call September 24, 2019 5:00 PM ET

Company Participants

Mike Hansen - EVP and CFO

Paul Adler - VP and Treasurer

Conference Call Participants

Toni Kaplan - Morgan Stanley

Manav Patnaik - Barclays Capital

Kevin McVeigh - Credit Suisse

Gary Bisbee - Bank of America Merrill Lynch

Seth Weber - RBC Capital Markets

George Tong - Goldman Sachs

Andrew Wittmann - RW Baird

Shlomo Rosenbaum - Stifel, Nicolaus

Scott Schneeberger - Oppenheimer

Andrew Steinerman - JPMorgan Securities

Operator

Good day, everyone, and welcome to the Cintas Quarterly Earnings Results Conference Call. Today's call is being recorded.

At this time, I would like to turn the conference over to Mr. Mike Hansen, Executive Vice President and Chief Financial Officer. Sir, please go ahead.

Mike Hansen

Thank you, and good evening. Thanks for joining us. With me is Paul Adler, Cintas' Vice President and Treasurer. We will discuss our first quarter results for fiscal 2020. After our commentary, we will be happy to answer questions.

The Private Securities Litigation Reform Act of 1995 provides a Safe Harbor from civil litigation for forward-looking statements. This conference call contains forward-looking statements that reflect the Company's current views as to future events and financial performance. These forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those we may discuss. I refer you to the discussion on these points contained in our most recent filings with the SEC.

Revenue for the first quarter of fiscal '20 was a record $1.81 billion, an increase of 6.7% over last year's first quarter. The organic growth rate, which adjusts for the impacts of acquisitions, foreign currency exchange rate fluctuations and differences in the number of workdays, was 8.3%.

In the first quarter of fiscal '20, the organic growth rate for the Uniform Rental and Facility Services operating segment was 7.5%, and the organic growth rate for the First Aid and Safety Services operating segment was 13.8%.

Gross margin for the first quarter of fiscal '20 of $849.1 million, increased 9.6%. Gross margin as a percentage of revenue was 46.9% for the first quarter of fiscal '20, compared to 45.6% in the first quarter of fiscal '19.

Uniform Rental and Facility Services operating segment gross margin as a percent of revenue improved 150 basis points from last year's first quarter to 47.2%. And the First Aid and Safety Services operating segment gross margin percentage improved 110 basis points to 49%.

Reported operating income for the first quarter of fiscal '20 of $306.1 million increased 15.4%. Operating margin was 16.9% in the first quarter of fiscal '20, compared to 15.6% in fiscal '19. Operating income in the first quarter of fiscal '19 was negatively impacted by integration expenses related to the G&K acquisition by $4.9 million, or 30 basis points.

Reported net income for the first quarter of fiscal '20 was $250.8 million, and reported earnings per diluted share for the first quarter of fiscal '20 were $2.32. Excluding the G&K acquisition integration expenses in fiscal '19, EPS increased 20.2%.

As our Chairman and CEO, Scott Farmer was quoted in today's press release, we are pleased with our start to our fiscal year. We thank our employee-partners for continuing to execute well on our important initiatives.

Before turning the call over to Paul for more details, I'll provide an update of our fiscal '20 expectations. We expect revenue to be in the range of $7.28 billion to $7.32 billion. We expect EPS to be in the range of $8.47 to $8.57. Note the following regarding the guidance. The growth rate at the revenue guidance range is 5.6% to 6.2%.

However, our fiscal '20 contains one less workday than our fiscal '19. Adjusting for this one day difference, on a constant workday basis, the revenue growth rate at guidance is 6% to 6.6%. One less workday also has a negative impact on EPS reducing it about $0.06, which is a 90 basis point drag on the EPS growth rate for the year.

The guidance assumes an effective tax rate for fiscal '20 of 20.3% compared to a rate of 19.7% for fiscal '19. The higher effective tax rate in fiscal '20 negatively impacts EPS growth about 80 basis points and total EPS by about $0.06. Keep in mind that the tax rate can move up or down from period to period, based on discrete events including the amount of stock compensation expense.

The guidance assumes a share count for computing EPS of 109 million shares. This consists of diluted weighted average shares outstanding, plus participating securities in the form of restricted stock. And it does not assume any future share buybacks, any potential deterioration in the U.S. economy or any additional G&K integration expenses.

I'll now turn the call over to Paul.

Paul Adler

Thank you, Mike.

Please note that our fiscal '20 contains one less workday than in fiscal '19. One less day will negatively impact fiscal '20 total revenue growth by 40 basis points. To illustrate the magnitude of the headwind using fiscal '19's annual revenue, one less workday equates to about $27 million. One less workday also has a negative impact on operating margin and EPS.

Fiscal '20 operating income margin will be reduced by about 12.5 basis points, in comparison to fiscal '19 due to one less day of revenue. The negative impact on the margin occurs because certain expenses like amortization of uniforms and entrance mats are expensed on a monthly basis as opposed to on a daily basis. And we will have one less day of revenue to cover the expenses.

As Mike stated, one less workday is a headwind of about 90 basis points on EPS growth, and about a $0.06 drag on total EPS in comparison to fiscal '19. Each quarter of fiscal '20 will contain 65 workdays.

In comparison to fiscal '19, our upcoming Q2 of fiscal '20 will have the same number of days. Q3 will have one additional day, and Q4 will have one less day. Please keep the quarterly day differences in mind when modeling our fiscal '20 results.

We have two reportable operating segments Uniform Rental and Facility Services and First Aid and Safety Services. The remainder of our business is included in All Other. All Other consist of Fire Protection Services and our Uniform Direct Sale business. First Aid and Safety Services and All Other are combined and presented as Other Services on the income statement.

Uniform Rental and Facility Services operating segment includes the rental and servicing of uniforms, mats and towels, and the provision of restroom supplies and other facility products and services. The segment also includes the sale of items from our catalogs to our customers on route.

Uniform Rental and Facility Services revenue was $1.45 billion, an increase of 5.8%. Excluding the impact of acquisitions, foreign currency exchange rate changes and differences in the number of workdays, the organic growth rate was 7.5%. Our Uniform Rental and Facility Services segment gross margin was 47.2% for the first quarter compared to 45.7% than last year's first quarter, an improvement of 150 basis points.

Energy expense as a percentage of revenue was 2.20% compared to 2.45% in the prior year quarter. The gross margin expansion was driven in large part by the strong revenue increase covering certain fixed production and service department costs.

Our First Aid and Safety Services operating segment includes revenue from the sale and servicing of first aid products, safety products and training. This segment's revenue for the first quarter was $172.1 million. The organic growth rate for this segment was 13.8%.

The First Aid segment gross margin was 49.0% in the first quarter compared to 47.9% in last year's first quarter, an increase of 110 basis points. First Aid segment gross margins continue to increase with stop - with a strong top line growth. Our Fire Protection Services and Uniform Direct Sale businesses are reported in the All Other category.

Our Fire business continues to grow each year at a strong pace. The Uniform Direct Sale business growth rates are generally low single digits, and are subject to volatility, such as when we install a multi-million dollar account. Uniform Direct Sale, however is a key business for us, and its customers are often significant opportunities to cross-sell and provide products and services from our other business units.

All Other revenue was $184.5 million, an increase of 8.8%. The organic growth rate was 9.7%. The Fire business organic growth rate came in at 12.5%. Uniform Direct Sale business had a good quarter too, posting an organic growth rate of 5.8%. All Other gross margin was 42.8% for the first quarter of this fiscal year, compared to 42.9% for last year's first quarter.

Selling and administrative expenses as a percentage of revenue were 30.0% in the first quarter of fiscal '20, and 29.7% in the first quarter of '19. Lower labor expense as a percent of revenue was offset by increases in other expenses, particularly an 80 basis point increase in medical expense. We are self-insured and therefore subject to some volatility in medical expense from quarter-to-quarter.

Our effective tax rate on continuing operations for the first quarter of fiscal '20 was 10.1%. Stock based compensation positively impacted the tax rate. As Mike stated earlier, the tax rate can move from period to period, based on discrete events including the amount of stock compensation expense.

Please note three new line items on our balance sheet, resulting in an increase in assets and liabilities by about $165 million. These relate to our adoption in the quarter of the Accounting Standards Update 2016-02, entitled Leases. The adoption does not have a material impact on net income or cash flow.

Our cash and equivalents balance as of August 31 was $102.1 million. Operating cash flow in the first quarter of fiscal '20 increased about 70% from the amount of operating cash flow in the first quarter of fiscal '19, and benefited from strong earnings growth, and improvements in working capital. Capital expenditures in the first quarter were $64.7 million. Our CapEx by operating segment was as follows; $53.0 million in Uniform Rental and Facility Services, $8.1 million in the First Aid and Safety, and $3.6 million in All Other.

We expect fiscal '20 CapEx to be in the range of $280 million to $310 million. As of August 31, total debt was $2,876.9 billion. $2,538.1 billion was fixed interest rate debt, and $338.8 million was variable rate debt in the form of a term loan and commercial paper. At August 31, our leverage of 1.9x debt-to-EBITDA was slightly lower than our target of 2x.

That concludes our prepared remarks. We are happy to answer your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question will come from Toni Kaplan with Morgan Stanley.

Toni Kaplan

The Uniform gross rental margins were really strong this quarter expanding by about 144 basis points. Was there anything one-time in there, or I guess how much could be attributable to synergies? And how should we think about the pacing of synergies this year?

Mike Hansen

Nothing really one-time. We did as Paul mentioned, we got a little bit of a benefit 25 basis points from energy. So we got a little bit of benefit there. The synergies - our expectation is that they will be generally consistent from quarter-to-quarter.

So call it roughly $35 million. That would - if that happens, that will get us right through that $140 million for the year, which we - as we talked about a few months ago. We're going to be right around that range, $135 million to $140 million.

And so we feel pretty good about our ability to capture those synergies. I would say the rest of it is nice execution, getting through a little bit more of the integration activities and seeing some efficiencies at play. The environment for pricing was similar to the fourth quarter where we sat a bit incrementally better than we had seen. So got a little bit of revenue help from that standpoint as well but not really any one-time items.

Toni Kaplan

And now that you've reached your target leverage, can you talk a little bit more about what you would look for in an acquisition? Would you prefer sort of domestic or international for uniform versus ancillary services? And lastly would you expect any regulatory issues just given your size at this point?

Mike Hansen

So from an M&A perspective, we love M&A and our - in the businesses that we're currently in, certainly. Anything from a tuck-in in our Fire, First Aid and Uniform Rental businesses to something larger. We certainly - if there were any M&A opportunities in our space, we certainly want to be involved and would have a great interest in - in pursuing that at the right value.

And we certainly like from a geographic standpoint, it's easier to capture synergies for example, with acquisitions in the U.S. and Canada because we have a presence here, and it allows us to get density in markets to combine capacity if those opportunities present themselves. So we would prefer acquisitions where we can capture better synergies.

Your last question of, do we expect any regulatory issues? That certainly depends on what type of acquisition and the size of that acquisition, but, let's assume a large acquisition in the workwear space for example. If one came available, we love to take a look at it.

And when - I would say something that you may not be considering, others may not be considering is, we have so many people that look at our business from a served market perspective. And we view the market is so much bigger than that.

So for example, we compete in the workwear space, there is a lot of competition in the workwear space. Some of our competitors in workwear are from a retail standpoint. So in other words, they simply sell workwear.

Walmart and Amazon each sell over $5 billion annually of workwear. So they are large competitors in the space. And we have other competitors that provide workwear and design and shipping capabilities. They manage programs to a certain extent. So there are those kind of competitors. And we happened to provide workwear through manage programs. We source, we deliver, we maintain, we launder for our customers.

And so there is a lot of competition in the space. We've kind of told you for many years, over 60% of our new business comes from no programmers. And who are those no programmers? They are retail space, they are direct sellers. They are people who do it themselves. But we've shown year after year, that we, that is part of our market space.

Now we can also lose business to those kinds of - let's call it non-traditional competitors. My point in telling you all of this is, the opportunity is really large and much larger than our served market.

And so, look, if there is an opportunity that's large in our space, we certainly would have interest, we want to understand it, it would have to be at the right value, and we'd have to - we'd have to articulate that competitive set, which we think is quite large.

Operator

Our next question comes from Manav Patnaik with Barclays Capital.

Manav Patnaik

My first question is obviously, the first quarter growth was pretty impressive and well above your full year guidance ranges I guess. Could you just help us maybe walk through, if there is any quarterly cadences that we should be looking at?

Mike Hansen

Well. Sure. So maybe we'll start with the first quarter. We did have a really nice first quarter. Our non-rental businesses performed really well. Paul, maybe - Paul gave a little bit of comment on those, but maybe you can give a little bit more color on those business.

Paul Adler

Yes, sure, Manav. So let's start like with First Aid. We mentioned the organic growth at 13.8%. That's a business that has executed very well. We typically expect organic growth to be in high single digits, maybe 10% is what we've talked about for that business. So they came in a little bit stronger. Of course, there is a lot of blocking and tackling a lot of variables that go into the performance in the quarter.

But of note, we did have a new item that we rolled out in the quarter. A new item in the cabinet and it's kind of like a - kind of like a rollout of a direct sale program, for example in Uniform Direct Sale business where you're putting that into the cabinets, you get a lot of revenue, and then you're counting on some smaller trail of that revenue going on in the lapping quarter.

So a little bit of a boost because of that new product rollouts, and so outlook for First Aid is going to be continuing to have a great year, but probably the latter quarters more in the high single digits where we historically have been.

Fire. That business, impressive organic growth rate of 12.5%. Again a lot of pieces to that with execution of the sales force and great quality service. But they did have a little bit of an easier comp, Manav. I think their growth rates a year ago was about 8%, so little bit higher than 8%. So I think some of the 12.5% was a little bit of that easier comp.

And in that business, the Fire business, there is really two types of revenue streams. There is a more reoccurring revenue stream that we call test and inspection, testing and inspecting fire extinguishers and sprinkler systems, et cetera. It tends to repeat more often.

But we also have another revenue stream when things break, when alarms don't work, you have to perform repair and maintenance. And we had some national account repair and maintenance type revenue in the first quarter that was a little bit larger than we expected, and we don't expect that to repeat. So I think the 12.5% was a little bit higher than we typically expect.

And then finally kind of rounding out the other business units. You'll note - well you can't - I mean we might have mentioned in the prepared remarks that the Direct Sale business had a good growth rate of 5.8%. A year ago, the growth rate was rather weak, in fact it actually had some shrinkage of about 1.8%.

So that's a business that I think benefited from that easier comp in the first quarter. And as we've talked about previously in our prepared remarks that Direct Sale business is typically more of a 3% grower, long-term.

Mike Hansen

Yes. So, Manav when you look at the performance, I would say the non-rental businesses had great quarter, maybe outperformed our expectations a little bit, and probably don't expect that going forward. From a rental perspective, again had a really nice quarter. We had some really good execution by our rental partners. I mentioned a little bit of - the pricing was similar to the fourth quarter, which was incrementally good.

So, got a little bit of benefit there. Probably got a little bit of a year-over-year benefit. Keep in mind, last year in the first quarter, that was our lowest organic growth. So we were - our volumes were still kind of finding the bottom. So probably got a little bit of benefit in that regard too.

So as we look out over the next three quarters, we don't look at - we don't - there shouldn't be a lot of inconsistency in terms of the growth, but you know things can happen from quarter-to-quarter, but don't see a lot of movement from one quarter to the next for the rest of the year.

Manav Patnaik

And then if I could just ask in terms of the G&K revenue synergies. I know, I don't think you are looking to quantify anything. But any anecdotal color on, if you're starting to see that - the needle mover in terms of your results?

Mike Hansen

Well, we started talking about this a little bit. We saw signs of benefit in the first quarter of last year, and saw some nice execution throughout last fiscal year. And so we did see some benefits throughout last year and saw a little bit of that in the first quarter.

As we move forward from a lapping perspective, I don't know that I would expect anything that is significant, but we're - it's something that we're constantly, every week that we visit those customers, we're talking with them, we're educating them on what we do, and sometimes these take time. And we're going to continue to cultivate those relationships as we go. I wouldn't expect any significant amounts in any one particular quarter. But it's certainly is a nice benefit for us.

Operator

Our next question will come from Kevin McVeigh with Credit Suisse.

Kevin McVeigh

At this point, given the gross margins, is it fair to say and I know we're not just interviewing G&K. But is G&K up to the corporate average at this point, or would you expect that to continue to kind of narrow relative to where Cintas is relative to G&K?

Mike Hansen

Well, as you referred to, it's really hard to say. So for example, a lot of that G&K volume resides in legacy Cintas locations. So when you think about that volume, it certainly has helped us in those kinds of locations, create more capacity utilization, create little bit more density and so there certainly is a benefit.

From stand alone locations, many of them have inherited some legacy Cintas volumes, but they're not quite to where we would see the rest of the Cintas legacy locations, but they're making nice progress. So we hope to continue to see improvements as we move forward.

Kevin McVeigh

And then just with the benefit from energy, was that - was there any organic growth headwind, i.e., would there have been maybe a benefit last year from surcharges and you don't have those surcharges, or it would have all been on the expense side?

Mike Hansen

We started to see a little bit of softening towards the end of the first quarter in the energy space. Keep in mind, it's not a big part of our revenue base, but we started to see a little bit of softness, I would say no headwind in the quarter from a revenue perspective. We're keeping our eyes on it though, as we move into the second quarter and beyond.

Kevin McVeigh

I guess, I'm sorry, I was thinking more in terms of fuel. You don't get the fuel surcharges. I know it sounded like you saw some relief from energy costs. I just wondered if that was a headwind on the revenue line.

Mike Hansen

Yes, I'm sorry, we don't have a fuel surcharge. So the energy, the gas prices, we don't flex our pricing or surcharges based on the price of the pump. I'm sorry, what I was referring to was our customers, in the oil, gas, mining areas that generally, when you see the prices of the gas at the pump come down in the past, when we've seen those prices really come down, it kind of hurts that business here in the U.S.

And so the - we saw some benefit in that price of the pump as we said 25 basis points in rental. But we also saw a little bit of softening in the business side of it from a customer perspective. And so that's what we're keeping our eyes on. But we don't have a fuel surcharge. So no impact relative to that.

Operator

Our next question comes from Gary Bisbee with Bank of America Merrill Lynch.

Gary Bisbee

I guess you sort of alluded to this earlier in the commentary about some of the places where you saw strength this quarter, but clearly in the Rentals business you had a much easier comp on both organic revenue and margins in the year ago. And so I guess I just wanted to ask, is it right to think that that is a portion of the rentals business improvement and may be more significant than any sort of sequential improvement in momentum relative to what you were seeing this past spring? Is that fair?

Mike Hansen

So in other words, yes. Gary, I think your comment on, did we get some year-over-year benefit? Yeah, I think there was probably some of that, as you - as you alluded and I mentioned a minute ago. Our organic growth was still finding the bottom in terms of our volumes in rental and so there certainly is a little bit of year-over-year benefit there. And so I think that's - I think your commentary is reasonable.

Gary Bisbee

And then just thinking sequentially as we've moved over the last few months. Are you hearing anything different from your clients in the U.S. and Canada around the macro backdrop? Some of the forecasts for GDP growth in the U.S. are moderating, some of the industrial activities moderated a bit, though employment continues to be good. But any change in dialog or is it really steady as she goes?

Mike Hansen

Yes. We haven't heard much of a change from our customers and our first quarter results would kind of show that. When we think about the economic picture though as we move in - the last two quarters of our fiscal year are going into mid calendar '20. We do think about the noises around interest rates, the noises - the continued noises around trade and tariffs.

We're going to be entering an election year where there is going to be a lot of noise, and I would say, we look today with a little bit more cautiousness than maybe earlier in the summer. And while we haven't seen much change from our customers yet, we're keeping our eyes on it because there's just so much noise in the environment today.

Gary Bisbee

And then just lastly, can you give us a sense, how much of the All Other segment is Fire versus Uniform sales? And really the reason I ask is, I think a lot of people have always just plugged in low single-digit growth because uniforms was always bigger, but it sounds like Fire keeps growing. Is that, understanding this volatility quarter-to-quarter, is it possible, that's really more should be a mid-single digit type grower, all in given that Fire is growing quickly and Uniform fairly moderately? Is that a fair assumption? And if you could give us the mix that would be great? Thank you.

Paul Adler

Gary, it's Paul. I think that even in our 10-K, we actually have to break - I think the revenue recognition adoption of that FASB caused us to provide more detail. So you can take a look at the last 10-K and you'll see it. But my recollection is - and doing the math the last time that Fire is kind of like about 55% of the mix at this point in time, 45% then is the Direct sale business.

And then to your point, we've tried to add some color that the Fire business is high single digits, 10% organic, whereas that Direct sale business is typically around 3%. Fire - the Fire business had a very good quarter. It improved gross margins and improved operating margins.

But to your point, because of the fact that we lump those together for the accounting guidance, and we call it All Other, it blends this particular quarter to a little bit of a shrink in the gross margin by I think 10 basis points that was. But if that's more due to the - the mix shift and the fact that the direct sale business grew 5.8% and it shifts that mix and could cause that to move. But if you parse those two businesses out, Fire business actually improved their margins as I said.

Operator

Our next question comes from Seth Weber with RBC Capital Markets.

Seth Weber

Wanted to ask about working capital, it came down nicely relative to first quarter last year. Do you think you can kind of flip the negative? I think it was 2.60 or 2.75 or so for 2019. Do you think you can flip that all the way back to par this year? Or can you just talk to how you're thinking about working capital for 2020? Thanks.

Mike Hansen

Yes, when we - our thoughts on working capital are when we are growing, we're going to use some working capital. So for example, if we're growing the way we want to grow. Accounts receivable is going to grow. Inventories are going to grow, in-service inventory is going to grow because we are injecting new inventory into new customers and penetrated customers.

So generally speaking, we expect in a growth environment, we expect to use working capital. Now last year, in the first quarter, our use of working capital was quite larger than it was this year in the first quarter.

So we were in the midst of a lot of system integration activity, a lot of G&K integration activity, and so we had some disruption in the accounts receivable environment. We feel really good about where we are today. And so you've seen a little bit of a less of a usage there, from an inventory perspective last year and an in-service inventory last year.

When we make an acquisition like G&K, there are points in time at which we are going through inventory a little bit more quickly because we're transitioning out of legacy G&K inventory into Cintas types of inventory.

Now that didn't happen all at once in the first quarter last year, but it certainly picked up. It continues today but certainly at a lesser pace. And so that's - there was a little bit disruption last year in the first quarter, a little bit more of a steady state this year in the first quarter, but we would expect continued use as long as we can continue to grow.

Seth Weber

So the balance of the year probably look something like the balance of 2Q through - the balance of last year then. Is that a fair way to think about it?

Mike Hansen

Seth, I don't have the balance of last year right in front of me, but I would - generally speaking, yes. We wouldn't expect any - anything of a disruptive nature in those areas.

Seth Weber

And then just follow up on the SG&A, I appreciate you calling out there were some extra expenses there for the quarter. So would you expect, assuming those don't recur SG&A to be down then year-over-year for the rest of the year? Yeah.

Mike Hansen

That certainly is our - yeah that certainly is our expectation. From a self-insurance standpoint, we've had quarters in the past where we'll see one time claims pop up and it results in a little bit of a higher insurance, medical expense than normal. Those may continue to happen.

But generally speaking, we expect to see some nice leverage in SG&A, particularly from the G&A side of things. Paul mentioned that labor, G&A labor was down a little bit and we are very pleased with that. So we'll have disruptions from quarter-to-quarter. Generally speaking, we do expect leverage, no doubt.

Seth Weber

And just, sorry, one last one for Paul, is tax rate kind of consistent here then for the balance of the year just spread evenly 2Q to 4Q?

Paul Adler

Yes, that's reasonable, Seth, but it's just that Q1 that is so - such an outlier because of the stock option exercises. So I think that's good for modeling for the remainder of the year.

Operator

Our next question comes from George Tong with Goldman Sachs.

George Tong

Going back to organic revenue trends. How much of the acceleration in the quarter would you say is due to traction with penetration of the no programmer market versus improving adds, stops or easing competitive trends that you're seeing?

Mike Hansen

Yes, George, not a lot of difference from a normal quarter from the standpoint of new business continues to be strong, productivity from our reps was really good. And within that new business, set was a good no programmer performance. So new business continues to lead the growth effort. From adds, stops nothing to call out really.

But, as I mentioned earlier, pricing in the quarter did help similar to what we saw in the fourth quarter. So a little bit, certainly year-over-year help in that regard as well. So real nice sales productivity, little bit of pricing help, real nice execution from our partners.

George Tong

Your gross margins are continuing to improve across your segments. Can you elaborate on how your input costs are evolving and what your latest thoughts are around the impact of trade negotiations on the business?

Mike Hansen

Yes. So from a material costing standpoint, we haven't seen a lot of change right now. It seems like the trade and tariff conversation is more conversation than impact at this point, but it's still creating a lot of noise and uncertainty for our customers and us to a certain extent. But I haven't seen much of an impact.

Keep in mind from a material perspective, most of our material costs get amortized over some period of time, whether it's the life of a garment or the life of a mat, and that amortization period really helps. It's a bit of a natural hedging that helps us smooth those kind of cost out. But I would say no costs to call out from that regard. Labor, we've talked over the course of the last year, we've seen it some pressure in pockets, and didn't see anything new or different in this quarter.

Operator

Our next question comes from Andrew Wittmann with RW Baird.

Andrew Wittmann

I just had a couple of maybe clarifying questions here. First just on the guidance, I think you guys - obviously the tax rate was low. We expected it to be low. I don't think you guys expected it to be quite this low. I'm just wondering how much of the tax rate was incremental or part of the guidance raise just to tease that element out of the total rates here versus your prior expectation?

Mike Hansen

Yes, I would say in the quarter it was about a $0.06 impact, for the year, probably about an $0.08 impact. And look, the - so much of that impact that we speak of is kind of out of our control. Well you've heard us talk about the equity piece of that and that's what kind of played out - that played the role in the first quarter here.

Andrew Wittmann

And then just on SAP, in the past you've talked about how well rolled out or how thoroughly rolled out that is. Can you just kind of update us as to where we were either at the end of the quarter or where we stand today, Mike?

Mike Hansen

Yes, Andrew. It's - we're about 75% of the way complete now. And so we're still on track to finish that implementation by the end of the fiscal year.

Andrew Wittmann

And then just for other detail here. You did some pretty good amount of buyback in the quarter. Can you give the total number of shares that you bought in and how much is remaining on the authorization that you currently have in place?

Mike Hansen

Yes. During the quarter, we - well, we have $263 million left on the authorization. We bought 837,000 shares for just under $200 million. Keep in mind that all of that purchasing was done prior to our July call. So it was - it did not have an impact on with the guidance that we gave you today.

Andrew Wittmann

And then I guess just the only other question I had was specific around labor. You talked about SG&A kind of labor savings, but in the gross margin in the plant, this has been an area that's been cited maybe more by some of your competitors, but you guys have talked about it a little bit as well. I was just wondering if there is any changes that you've seen in the marketplace for your plant-level labor and how you're dealing with that today, if there is something to be dealt with?

Mike Hansen

Well, you're right. We've talked a little bit about pressures here and there in pockets particularly in that production and plant environment. And I would say, we didn't see much of a change. It remains a competitive environment and we got to do - the best thing we can do is, is keep our turnover - our partner turnover as low as possible. And we've been pretty successful at that. So I know, not much of a change in this first quarter compared to what we've seen over the course of the last year.

Operator

Our next question comes from Shlomo Rosenbaum with Stifel, Nicolaus.

Shlomo Rosenbaum

You're talking about M&A earlier in the call. Have you guys ever purchased a company that had unionized labor force and is that something that would be a non-starter for you? Or is that something that you would still entertain, if there is a lot of synergy potential?

Mike Hansen

Well, Shlomo, G&K had about 20% union workforce when we acquired them. A union environment, a different culture, it certainly creates a different type of environment to operating environment and those kind of things can tend to make synergy capture a little bit more challenging.

And so at the end of the day, would we evaluate something with a heavy union component? You know that's a value consideration more than anything else. And we'd have to take a good hard look at it, because it does complicate the synergy capture opportunity. But there is - that's a part of the conversation around value and consideration.

Shlomo Rosenbaum

And then, did I hear you right that you did not buyback any more stock after the last earnings call?

Mike Hansen

Correct.

Shlomo Rosenbaum

And then could you just - is that usually - usually when companies don't buyback stock and their leverage is below the level that the - consider a target level there is usually something that is a potential out there, is that an unfair assumption for us to make that there might be something in the near to intermediate term?

Mike Hansen

Well, Shlomo, we've always looked at that buyback as we've executed as an opportunistic program. And if you go back over the course of the last 10 years, we are not consistent from quarter-to-quarter and that's by design. We kind of look at a bunch of different things. We look at the performance of the business, the investment needs of the business.

We look at M&A opportunities on the horizon. We look at things like upcoming dividends and we have a consistent history of not being consistent in the way that we execute on that buyback program. And I'm not sure I look into anything more than that.

Shlomo Rosenbaum

And then if you just look at kind of the margins of the business. The First Aid and Safety had really good growth, margin expansion was not a whole lot there. Is there a lot of investment going on in terms of building out routes or anything like that that you're not seeing more leverage here?

Mike Hansen

Well, we had a real nice gross margin quarter with the gross margin being up 110 basis points. And so we're with that growth, we are continuing to invest in routes and in capacity. But really you're right Shlomo, from an investment standpoint, we did continue to invest in the SG&A space.

And so we do see a little bit of an elevated SG&A number compared to last year. Keep in mind, they are also affected by the medical. And that was about an 80 basis point headwind. But you're right, we are continuing to invest in that business. We do really like it.

Shlomo Rosenbaum

And do you mind just going over the days in each quarter year-over-year? So we get that straight for the next three quarters.

Mike Hansen

Yes Shlomo, it's 65 in each quarter of this fiscal year. And then, let's see, compared to '19. So we had 66 in Q1 last year, then 65 in Q2, 64 in Q3, and 66 in Q4.

Operator

Our next question will come from Scott Schneeberger with Oppenheimer. Thanks very much.

Scott Schneeberger

I just want to hone in a little bit more on pricing, you've mentioned a nice improvement from fourth quarter or at least still solid, which has improved from the third quarter. Could you delve in a little bit to the end markets where you're seeing that pricing improvement. Is there any competitive dynamic that's changed to affect that? And when I speak of end markets, also if you could just specify across the segments too, please. Thanks.

Mike Hansen

So from a market by market - from an end market perspective, and nothing to call out of any significance. You've heard us talk a little bit about the pricing environment over the years. When businesses in the rental business are performing well, when they are growing they have limited capacity and it generally tends to add a little bit of more readableness to the pricing environment, and so we do see a little bit of that going on.

We also I think do a pretty good job of articulating to our customers, why at times pricing can be appropriate. And so I think that execution has been pretty good as well. So combination of the health of the marketplace, our ability to articulate I think that has combined to a nice environment.

Scott Schneeberger

And just following up on, in response to Manav's question early on in the Q&A, you were talking about a new item in the cabinet and how that could have a lumpy effect because the follow-on tapers a bit. I was just curious, how are you doing with opportunities like that rolling out and if you want to share what that new item was, that would be great. But how are you doing with deploying new offerings and servicing - services. And if you could tie that into G&K and if you're seeing any cross-sell benefit from there, that would be great? Thanks.

Mike Hansen

We do - we are seeing some cross-sell opportunities and benefits like we have over the course of the last year. And, but I would say generally speaking and we'd rather not call out that specific item, but generally speaking, we're always looking and investing for ancillary products ways that we can add some value for our customers.

And so in this case, it was a nice benefit. Sometimes those happen in a particular quarter and didn't happen last year, they can be lumpy in terms of when the roll-outs occur, but we like where we are in terms of our ability to create those ancillary products within our businesses.

That's what - we've talked many times about the umbrellas of image safety, cleanliness and compliance and when we think broadly like that with our customers, sometimes, we're able to come up with some pretty nice and unique ideas and we've been - we've had some success over the course of the last year, and that would go for legacy G&K customers as well as into legacy Cintas customers. We've had some nice success.

Operator

Our next question comes from Andrew Steinerman with JPMorgan Securities.

Andrew Steinerman

It's Andrew. Could you give a quick comment on merchandise amortization, was it a headwind or a tailwind in the first quarter? And given the strong new wins, do you feel like merchandise amortization will be more of a drag going forward to margins?

Mike Hansen

Yes, right. No, there was nothing to call out in that regard during the quarter. We are in an interesting time as I was mentioning earlier Andrew, where we've injected a decent amount of new Cintas product into legacy G&K customers, and that can create some rippling and we're going to see a little bit of that as we move forward, but less of it today than a year ago I would say.

As we move forward, we're going to continue to sell, hopefully a lot of new business, and so we'll continue to inject at pretty good rates. But again, I would say nothing to call out. Our managers are managing the inventory and the in-service pretty well.

Andrew Steinerman

Can I ask as you do inject, excuse me, inject Cintas uniforms into the G&K customer base, do they notice the - that there is a quality upgrade there?

Mike Hansen

We certainly would like to think so, I mean, when we look at the inventory, Andrew, our people understand the features and the functionality of the inventory in the garments that we have. And they are trained to point those features and functions out to our customers. So as long as we are doing our job and introducing those garments and introducing those prominent features and functions of them, I'm expecting that the customers certainly notice.

Operator

All right, thank you. And at this time there are no further questions in the queue.

Mike Hansen

Well. Thank you for joining us tonight. We will issue our second quarter financial results in December and we look forward to speaking you - speaking with you again at that time. Good night.

Operator

Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect. Please, enjoy the rest of your day.