



Bull Spread in Aramark Positions for Modest Upside with Nice Reward/Risk Strategy

Ticker/Price: ARMK (\$36.23)

Analysis:

Aramark (ARMK) late trade yesterday with 10,000 October \$37/\$41 call spreads bought for \$1.15 net debit, name with very little other notable open interest. ARMK shares have traded in a narrow range since May with the 20-day just below yesterday's range and rising strong. MACD is nearing a bullish crossover after pulling back and RSI is back near 60. A move above \$37 has a measured move to \$40 and a big volume node from 2018. Shares traded as high as \$46 in 2018. The \$8.85B company trades 14.29X earnings, 0.55X sales, and 22.3X FCF with a 1.25% yield. ARMK sees 11.5% and 9.1% EPS growth through FY21 with 2.6% to 2.7% revenue growth. ARMK shares jumped in May after Reuters reported that Mantle Ridge was pushing the company to sell itself and raising funds for a potential LBO, one of the biggest in years. ARMK has been struggling in a tighter labor market with their legacy business growing 4% in the 1H of 2019. Analysts have an average target for shares of \$41 with 8 buy ratings and 4 hold. CSFB positive on 5-30 noting that talk of a takeover isn't surprising given recent miscues while the analyst sees multiple value creation levers to drive the stock higher, including uniform rationalization and improved investor communication, and believes the report highlights Aramark's intrinsic value. They think a SOTP analysis targets \$42 with an incremental \$3-\$6 of upside from International monetization. On 7-1, they highlighted the PFGC deal for Reinhart Food, "We believe continued deal activity in the foodservice and food distributor space underscores the intrinsic value in the sector and supports our view that strategic actions at Aramark could unlock shareholder value." The Fazer deal also underscores ARMK's potential optionality. Short interest is 4.5% and down from around 6% in late 2018. Hedge Fund ownership rose 17.5% in Q1. Atlanta Capital with 17M shares while Nitorum Capital and Echo Street both with notable stakes. In December, the COB/CEO bought \$3M in stock at \$32.45 while in 2018 a director bought \$800k in stock at \$40.75.

Hawk Vision:



Hawk's Perspective: ARMK has held its pop well on M&A reports which tends to be a positive sign, and could see a deal develop, this strategy offers a nice way to play that view.

Confidence Ranking: \$\$