



## ARAMARK Calls Bought into Weakness, Consolidation Trend in Food Distribution

**Ticker/Price:** ARMK (\$40.40)

### Analysis:

**Aramark (ARMK)** trading over 18.5X average volume today with 4,000 July \$44/\$50 call spreads bought to open for \$1.20. ARMK has little notable OI but some OTM February and July calls from mid-January. On 11-22, the new CEO bought \$1.49M in stock at \$42.68. Shares are down about 14.5% from 52-week highs and attempting to hammer today just above the rising 200-MA. ARMK is also just above the 38.2% Fibonacci of the run from the 2019 lows. The \$10.44B company trades 15.8X earnings, 0.64X sales and 39.5X cash with a 1.1% yield. ARMK was a stalwart name in the space until issues around management and long-term direction in 2018. Activist Mantle Ridge took a 20% stake in the company last year and helped re-install 18-year veteran CEO John Zillmer at the helm. He has a deep understanding of the business and has said that the near-term will be about re-accelerating the focus on the hospitality business and client retention by adding sales staff. He also plans to realign some businesses with an eye on improving operating efficiencies that ultimately will allow them to add more SKUs and be more valuable to customers without hurting margins. ARMK sees some lumpiness in results in the near-term as they institute these new policies and guiding to 10% EPS growth in 2021 and 6.7% in 2022 with revenues up 2.5% to 3%, but upside to both as they make progress. Analysts have an average target for shares of \$46. Citi started at Sell on Friday with a \$39 PT. They think that while some of their policies may lead to a turnaround, the timetable will be slower than expected while capex will be higher and margins compressed. Berenberg downgrading in January on valuation. Short interest is 3.5% and down from around 6% in early 2019. Hedge fund ownership fell 10% in Q3. D1 Capital, Hound Partners, Valinor, Kensico, and others with notable buys.

### Hawk Vision:



**Hawk's Perspective:** ARMK with a test of the 200 MA gets interesting though prefer peer PFGC as the better quality name to own. ARMK can be traded versus a close under the 200 MA in my view.

**Confidence Ranking:** \$\$