

Cintas Corporation, Q3 2025 Earnings Call, Mar 26, 2025

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Operator

Good day, everyone, and welcome to the Cintas Corporation Announces Fiscal 2025 Third Quarter Results Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Mr. Jared Mattingley, Vice President, Treasurer and Investor Relations. Please go ahead, sir.

Jared Mattingley

Thank you, Ross. Thank you for joining us. With me are Todd Schneider, President and Chief Executive Officer; and Mike Hansen, Executive Vice President and Chief Financial Officer. We will discuss our fiscal 2025 third quarter results. After our commentary, we will open the call to questions from analysts.

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 Securities and Exchange Commission.

I'll now turn the call over to Todd.

Todd Schneider

Thank you, Jared. We are pleased with our strong third quarter results. Third quarter total revenue grew 8.4% to \$2.61 billion. Our organic growth rate, which adjusts for the impacts of acquisitions and foreign currency exchange rate fluctuations, was 7.9%. Our results reflect great execution by our employee partners across each of our business segments. Uniform Rental and Facility Services continues to perform well with organic growth of 7%, and our First Aid and Safety Services and Fire Protection Services businesses grew double digits, underscoring the comprehensive value proposition we

offer to customers of all types and sizes.

Gross margin for the third quarter grew 11.1% over the prior year to 50.6%, an all-time high. Operating income increased 17.1% to 23.4%, which was also an all-time high. Our third quarter profitability includes a \$15 million gain on the sale of property. Excluding that benefit, operating income as a percent of revenue was 22.8%, the second highest in Cintas history. Diluted EPS grew a robust 17.7% to \$1.13.

Our strong earnings growth and profitability reflect our continued operational excellence via sourcing and supply chain initiatives, route and energy optimization and technology-enabled efficiency in our facilities. For example, we continue to leverage our SAP system to standardize our processes across our operations. These initiatives are improving the way our employee partners work in getting the right products to our customers faster, improving both the customer experience and our margin profile.

Cash flow this year continues to be very strong. Our free cash flow for the first 9 months of the year increased 14.5% over the prior year. Our strong cash flow generation enabled us to deploy capital across each of our capital allocation priorities, starting with investing back in the business, including products and technologies to support our employee partners as they look to sustain attractive growth levels and create value over the long term. Additionally, we made strategic acquisitions across each of our three route-based segments in the quarter.

Returning capital to Cintas shareholders also remains a key priority. Cintas paid a quarterly cash dividend of \$0.39 per share on March 14, and we continue our opportunistic approach to share buybacks.

Before turning the call over to Mike to provide details of our third quarter results, I'll provide our updated financial expectations for the remainder of our fiscal year, which reflect our continued momentum and confidence in our outlook.

We are updating our annual revenue expectations from a range of \$10.255 billion to \$10.32 billion to a range of \$10.28 billion to \$10.305 billion. As we enter our last quarter of fiscal 2025, we have narrowed our revenue guidance to increase total revenue growth and organic revenue growth at the midpoint of the guide. The \$15 million reduction at the top end of the range reflects the negative impact of the foreign currency exchange rate experienced in the third quarter and the expected impact for the fourth quarter.

Please keep in mind that the impact of foreign currency exchange rate fluctuations does not impact organic growth -- our organic revenue growth rate -- excuse me, our organic

revenue growth guidance is now to be in the range of 7.4% to 7.7%. We are also raising our annual diluted EPS expectations from a range of \$4.28 to \$4.34 to a range of \$4.36 to \$4.40, implying a growth rate of 15% to 16.1%.

I want to thank all of Cintas' employee partners for their outstanding work and dedication to our customers. With our culture of continuous improvement, superior products and services and the strong value proposition we offer to our customers, we remain poised to deliver sustained growth and value creation for the rest of fiscal year 2025 and beyond.

With that, I'll turn the call over to Mike to discuss details of our third quarter results.

J. Hansen

Thanks, Todd, and good morning. Our fiscal 2025 third quarter revenue was \$2.61 billion compared to \$2.41 billion last year. The organic revenue growth rate adjusted for acquisitions and foreign currency exchange rate fluctuations, was 7.9%. As Todd alluded to, foreign exchange rates negatively impacted third quarter revenue growth by 40 basis points.

Organic growth by business was 7% for Uniform Rental and Facility Services, 15% for First Aid and Safety Services, 10.6% for Fire Protection Services, and Uniform Direct Sale was down 2.3%.

Gross margin for the third quarter of fiscal '25 was \$1.32 billion compared to \$1.19 billion last year, an increase of 11.1%. Gross margin as a percent of revenue was an all-time high at 50.6% for the third quarter compared to 49.4% last year, an increase of 120 basis points. Robust volume growth, operating leverage and continued operational efficiencies helped generate this strong gross margin.

Gross margin percentage by business was 50% for Uniform Rental and Facility Services, 57% for First Aid and Safety Services, 49.9% for Fire Protection Services, and 41.2% for Uniform Direct Sale.

Gross margin for the Uniform Rental and Facility Services segment increased 120 basis points from last year. Our progress year-over-year reflects our focus on operational excellence initiatives combined with leverage from strong revenue growth. We continue to realize benefits from our technology investments and extracting inefficiencies from the business.

Gross margin for the First Aid and Safety Services segment increased 70 basis points from last year, with strong revenue growth continuing to create leverage. Our sales mix remains favorable with more profitable First Aid products and increases in our recurring revenue products like AED rentals, eye wash stations and WaterBreak. Our technology investment in SmartTruck provides route optimization and improved efficiencies, and we continue to see sourcing benefits from our first aid dedicated distribution center that have allowed us to lower product costs. All of these contribute to improved margins.

Selling and administrative expenses as a percentage of revenue was 27.2%. As Todd shared, there was a \$15 million gain on the sale of property during the third quarter of fiscal '25. Without that gain, selling and administrative expenses would have been 27.8%. Last year, there was a \$15 million agreement in principle to settle a purported class action contract dispute. Without that \$15 million settlement, selling and administrative expenses last year would have been 27.1% instead of the reported 27.7%.

Third quarter operating income was \$609.9 million compared to \$520.8 million last year. Operating income as a percentage of revenue was 23.4% in the third quarter of fiscal '25 compared to 21.6% in last year's third quarter, an increase of 180 basis points. Adjusted for the gain on the property sale, operating margin in the third quarter of fiscal '25 was 22.8%, the second highest in Cintas history.

Our effective tax rate for the third quarter was 21% compared to 19.9% last year. The tax rate in both quarters were impacted by certain discrete items, primarily the tax accounting impact for stock-based compensation.

Net income for the third quarter was \$463.5 million compared to \$397.6 million last year. This year's third quarter diluted EPS of \$1.13 compared to \$0.96 last year, an increase of 17.7%. When adjusted for the \$15 million property sale, EPS was \$1.10.

As Todd mentioned earlier, we continue to generate strong cash flow. Over the first 9 months of the year, our free cash flow increased 14.5% over the prior year. This has allowed us to invest back in the business, which has resulted in the third quarter capital expenditures of \$99.9 million. We expect capital expenditures for the year to finish close to our target of 4% of revenue.

Todd provided our annual financial guidance, related to the guidance, please note the following. Fiscal '25 revenue guidance accounts for the impact of negative foreign currency exchange rate fluctuations. While the first half of the year was negatively impacted by only 10 basis points or \$5 million, the second half of the year is expected to

be negatively impacted by approximately 40 basis points or \$16 million. Fiscal '25 net interest expense is expected to be approximately \$100 million compared to \$95 million in fiscal '24.

Our fiscal '25 effective tax rate is expected to be 20.2%. Please note that this implies a fourth quarter effective tax rate of 23% compared to an effective tax rate in last year's fourth quarter of 21.4%. As a reminder, there are 2 fewer workdays in fiscal '25 compared to fiscal '24, which has a negative impact on total revenue growth of about 80 basis points for the year. Also, as a reminder, the upcoming fourth quarter will have 1 less workday than last year's fourth quarter. This will negatively impact the fourth quarter total revenue growth by about 160 basis points. Guidance does not include any future share buybacks or significant economic disruptions or downturns.

I'll now turn the call back over to Todd for some closing remarks.

Todd Schneider

Thank you, Mike. Before we open the line to Q&A, I want to address the announcement we made on Monday afternoon. The Cintas has terminated discussions with UniFirst regarding Cintas' proposal to acquire UniFirst for \$275 per share in cash.

After we publicly announced our proposal in early January, we engaged with UniFirst and its advisers in an effort to reach a mutual agreement regarding a transaction that we believe offers tremendous value for customers and shareholders. Despite Cintas' considerable efforts, we were unable to have substantive engagement with UniFirst regarding key transaction terms. While we continue to believe in the merits of a transaction, we do not believe further discussions are warranted at this time. As you all can appreciate, we won't have -- we will not have more to say on this matter.

As our third quarter performance demonstrates, we remain focused on executing our strategy and taking great care of our customers, and we look forward to the great market opportunity ahead.

With that, I'll turn it back over to Jared.

Jared Mattingley

Thanks, Todd. That concludes our prepared remarks. Now we are happy to answer

questions from the analysts. [Operator Instructions] Thank you.

Operator

[Operator Instructions] And our first question comes from George Tong from Goldman Sachs.

Keen Fai Tong

Can you talk a little bit about how customer purchasing behaviors and sales cycles are changing given the currently evolving macro environment?

Todd Schneider

George. So the customer behavior, I would say, is -- remains stable. Our new business and our retention rates continue to be attractive. Our add-stops metrics really, there has been no significant change. We certainly recognize there is more uncertainty in the marketplace right now, and we're reading the similar things to what you're reading and we continue to monitor things. But our value proposition continues to resonate, especially in the periods of uncertainty like this. Outsourcing can improve and steady cash flow, and saves time that can be spent on people's business, on our customers' business.

So no real change, I would say, to the customer behavior at this point, sales cycles, et cetera. But we're certainly monitoring it and paying close attention as again, we're reading the same things you're reading.

Keen Fai Tong

Got it. That's helpful. And just as a quick follow-up. You mentioned last quarter that you were experiencing some pricing normalization as inflation normalizes. Can you talk a little bit about how pricing trends are performing this quarter compared to the past quarters?

Todd Schneider

Great question. The pricing environment, as always, it's always challenging. It has been my entire career, and I'm sure it will be in the future. Our pricing is right at historic levels. So again, there is more uncertainty in the market than there was 90 days ago. But we really haven't seen any change from that standpoint.

And I'd like to just say that I'm really proud of the organization being able to grow at attractive levels the way they are and expand margins by extracting out inefficiencies in our business. It's been impressive to watch in an environment that has been certainly a little bit more uncertain with the news that has been coming out of the administration and other areas of our economy.

Operator

And our next question comes from Jasper Bibb from Truist Securities.

Jasper Bibb

I was hoping you could update us on what you're seeing on the COGS side related to tariffs on Mexico and China? And I guess, is there any way to frame the exposure to purchasing from those countries and what you might be able to do to offset any potential increased costs with your sourcing efforts?

Todd Schneider

Jasper. First off, it's too early to tell any tariff impact that might have. Certainly, we're well aware of April 2 that the administration is going to be announcing potentially additional tariffs. But it's too early to tell at this point. I'll say this, our supply chain organization is a strategic advantage for us. So we have less than 10% of our products are sole sourced. We're in a really good position to negotiate from that standpoint. Certainly, it is something that we're watching. But we're -- we think we've got a real competitive advantage there. The geographic diversity that we have, as I mentioned, the dual sourcing. And our corporate culture traits of positive discontent and competitive urgency. They fuel process improvements that drives us to be more efficient.

So we think we're in a good position there. We're certainly paying very close attention to it. And we will pivot as appropriate and we believe we're well positioned to pivot. All that being said, as you're aware, it takes a while for products to get through the system for us, whether it is manufacturing, it has to get into our inventory, then it has to be purchased by our locations and then we amortize it. So we have really good visibility on what our costs will look like, which gives us time to pivot and time to address these subjects with customers as appropriate.

Jasper Bibb

And then maybe stepping back on the M&A question. How are you thinking about the opportunity to consolidate, I guess, more midsized private platforms that could be available in rental uniform or your other industry verticals? And I guess, separately, how would you characterize the pipeline of those smaller tuck-in size deals for that?

Todd Schneider

Great question. First off, we have -- M&A has been an important part of our strategy for the last, I would say, 30, 40 years. So that's important to us. And we love M&A. We love tuck-ins. Tuck-ins are very attractive for us. It allow us to bring efficiencies on route, bring customers on where we can offer additional, a wider breadth of products and services to those customers. And in certain cases, we're able to bring on M&A that allows us to have additional capacity.

So that's all important to us, and we are always in search of that. You really can't pace it. That pacing is really around in certain cases, family dynamics, whether or not an operator is getting to a retirement age or an operator doesn't have children that is interested in participating or whatever. So it's tough to pace those and predict them. But we're active in the market, and we are pursuing M&A in all of our route-based segments, and we think it's a great use of cash for us.

Operator

And our next question comes from Manav Patnaik from Barclays.

John Ronan Kennedy

This is Ronan Kennedy on for Manav. Could I please reconfirm the primary drivers of impressive margins, especially at the GM level? And then also the sustainability of those drivers and how that will evolve going forward in consideration as to whether the 25% to 35% incremental range is still the right way to think about it?

Todd Schneider

Ronan, I'll start. Mike, if you want to chime in here. First off, yes, we believe the 25% to 35% incrementals are the areas that where we want to point towards. And we believe we can continue to do that. It's really driven by solid execution in our key initiatives. As I speak about often, our corporate culture is our greatest competitive advantage, and it drives the behaviors around trying to execute at high levels but also find ways to extract out inefficiencies. That being said, strong revenue growth is a very powerful leverage for us. And we've executed nicely upon that.

In addition to that, the material cost improvements we've seen that through improved sourcing, the technology that we've deployed into our facilities that allows us to get better reuse of garments has been important to us. And then I would say the other infrastructure improvements that we made through our engineering department and our Six Sigma Black Belt teams have been encouraging for us. And we still see that target of 25% to 35% incrementals of being where we're focused on and where we plan to drive towards.

John Ronan Kennedy

Appreciate it. And then going, I guess, to a more granular level with that question, how should we think about the current operating and incrementals for the respective segments? Uniforms and First Aid drivers and sustainability there? And I guess also for Fire Protection, I understand there is going to be some potential impact of SAP conversion next year, but just anything to be mindful of margin-wise by segment specifically?

Todd Schneider

Yes. I spoke a little bit to the rental, the garment sharing, the technology we're deploying in our facilities. Our SmartTruck technology that we're leveraging across all of our route-based systems -- our route-based businesses have been important for us. Speaking of First Aid, really, again, really good organic revenue growth, which is giving us real leverage. The value proposition in that business is resonating big time. We talk -- the leadership of our organization in First Aid speaks about what's more important to a customer than the health and safety of business' employees and their customers. So that value proposition is resonating.

The mix of revenue in the First Aid business is attractive. It's in recurring type areas of our business. Our sourcing organization has done a really nice job with our dedicated First Aid distribution center. As I mentioned, SmartTruck. And in the Fire business, the leverage that we're getting is, again, on attractive revenue growth, deploying technology to make our people more successful and more efficient. And you're correct, we are investing in deploying SAP into that business, and we're encouraged about as we get through the deployment there, reaping some benefits in that business as well.

Operator

And our next question comes from Tim Mulrooney from William Blair.

Benjamin Luke McFadden

This is Luke McFadden on for Tim Mulrooney. Maybe starting off one here just on the macro picture. I fully recognize you're not providing guidance for 2026 at this time. But just curious, kind of at a high level, how should we think about the setup heading into next fiscal year, given organic growth in the business remains pretty healthy, but obviously, there's a decent amount of uncertainty out there right now?

Todd Schneider

Yes. So we're certainly monitoring it very closely, but we're positioning our people to be successful in the short, mid- and long term. So we're investing in our business so that we have great products, great services and provide a real value proposition to our customers.

We've shown the ability to grow our business in just about every economic environment that is -- that we've seen over my career. And we've shown the ability to grow in multiples of GDP. We certainly love it when people are hiring more workers. But we've been able to grow in spite of that. So whatever the economic environment that is thrown at us, we plan to be successful. And we're organized around that. We're investing for that and we see that opportunity moving forward.

So we'll continue to monitor it very closely, and watch the impact to the economy and to our customer base and we'll pivot appropriately. But nevertheless, we think our value proposition resonates with folks and helping them run a better business.

Benjamin Luke McFadden

Understood. That's really helpful. And then maybe switching gears a bit here. You've spoken recently about government as being a focused vertical. Just curious how you're thinking about that opportunity in light of the administration's intentions to reduce spending broadly across the federal government agencies?

Todd Schneider

Great. Good question. Keep in mind, we have a very broad customer base. But the efforts that are going on there, it's still too early to tell what exactly is going to happen. As you have seen, the efforts are really around the federal government. And our focus has been on state and local governments. So there's certainly a possibility. The work still needs to be done at the state and local government level. So as the federal government shrinks, it's very possible that the state and local government just take on more work. So we're watching that.

We've recently -- and from a state and local standpoint, we had a local public school system. That is a very large public school system come to us and talk about, hey, is there ways that you can take cost out? And in that case, we consolidated suppliers, meaning that provided us more business, but lowered their overall total cost of their program. And so this allowed us to streamline invoicing for the customer, which lowered administrative burden for the school system.

So net-net, we took cost out of the total dollars that were in their budget, but we were able to enjoy a larger portion of that wallet. So these are -- we expect that, certainly,

that may very well be a more common subject in the future. But we're having those types of conversations with all customers. And certainly, school systems are not immune to that. So we think we're in a good spot.

Operator

And our next question comes from Andrew Steinerman from JPMorgan Securities.

Andrew Steinerman

Mike. Two questions, one small one, one math one. So what was energy and fuel cost as a percentage of revenues in the just reported third quarter? And my second question is, could you tell us what's implied, what's embedded in your full year organic revenue growth guidance. When you look on a sequential basis, at the fourth quarter that we're in now versus the third quarter? And you can imagine I'm talking about organic constant currency sequential same-day basis.

J. Hansen

Let me start, Andrew, with energy, and the energy for the quarter was -- for the total company was 1.7% of revenue. That's the same as last year's third quarter. Rental was 2%, same as last year, 2%.

From an organic guide, Andrew, we just -- we talked about a 40 basis point impact on total revenue in the third quarter because of FX. We expect that to be fairly similar in the fourth quarter. In addition to that, in the quarter, we had, call it, 70 basis points of M&A impact. Actually, it was 90 basis points of M&A impact with a 40-basis-point headwind to get to that 50-basis-point differential. Something not too different than that in the fourth quarter is where I would be guiding you.

Andrew Steinerman

Right. So maybe let me just ask it one other way. When you look at the sequential revenue for the fourth quarter that we're in versus the third quarter we just reported, are you assuming a normal seasonal pattern?

J. Hansen

Well, we would assume a normal seasonal pattern in the performance of the business, in the underlying performance of the business, yes. The FX is a little different in that we have seen a change in the FX in this back half of the year, both in terms of the size of the move and the quickness of the move that is not usual for us. And that's why we've called out the Canadian FX impact.

Operator

And our next question comes from Justin Hauke from R.W. Baird.

Justin Hauke

I guess I just wanted to follow up on that tech question that was just asked because it would look like the fourth quarter organic constant currency and workday adjusted implied number with having that same FX headwind and the M&A contribution would be closer to like 6% versus the high 7s that you've done in the last 2 quarters. So I guess I was just curious why there would be kind of a deceleration there? And then the second one, and this is also just purely a number question. But the \$15 million gain on sale, which segment was that in on the SG&A line?

J. Hansen

I'll answer the second question first. That was -- it was spread across -- for both this year and last year spread across each of our segments.

From a fourth quarter revenue standpoint, Justin, let's keep in mind that there's 1 less workday, right? So that is 180 basis points of growth impact. So if you take that -- if you take the guide range and solve it for the fourth quarter, yes, you are going to see deceleration in total growth mainly because we have the headwind of 1 less workday.

So when you add back that 180 basis points to our growth, you get something very similar to what we've been doing for the full year, both in growth, excluding the workday impact as well as the organic growth. We expect to have a pretty good quarter in the

fourth quarter. That's what the guide is leading us to.

Operator

Our next question comes from Ashish Sabadra from RBC.

David Paige Papadogonas

This is David Paige on for Ashish. Can you just dive a little bit deeper into the Uniform Direct Sales. It looks like sequentially, it performed better but still a little down, so any color there? And then as a follow-up, just circling back to the capital allocation. Can you just give us an overview of, I guess, like the valuations and the multiples you're seeing out in the market? And absent of any large M&A, would you shift towards a buyback?

Todd Schneider

Yes. Thanks for the question. First off, our Uniform Direct Sale business is historically, there is some lumpiness to that business. It was improved sequentially. And -- but we are -- that's a very important business to us. It's a strategic business, serves -- we sell a lot into those customers not just Uniform Direct Sale, but they are outstanding prospects for Uniform Rental, also for Facility Services, First Aid and Fire Services. So that's a strategic business for us that sets the table for us to sell additional services. And yes, there can be some lumpiness, but we think we're well positioned in that business.

Regarding capital allocation, just to remind you, our #1 use of cash is investing back in the business. So we want to invest back in the business because we want to make sure that we're positioning our people to be highly successful, with the appropriate capacity, the appropriate technology tools, products, services, training, all that is very important.

Second item for us would be M&A. And I think we've shown to be very good stewards of capital as it relates to that. We're making strategic acquisitions, really attractive businesses that we can bring our products and services to and also bring our efficiencies to. And -- but it starts with -- when you have those strategic M&A, it starts with the most important resources there. Certainly, our products and trucks and kind of systems, what have you, but it's really the people and it's the customers. That's where our focus is. So we're making sure that we're acquiring really well-run businesses that fit nicely into

our network.

And then lastly, buyback, we have a dividend buyback, returning back to the shareholders. As I mentioned, March 14, we paid out our dividend. And then the buyback, we have always looked at buyback as an opportunistic way to redeploy capital back to our shareholders and give a return. And there were no buybacks in Q3, but we see -- we think we're -- our balance sheet puts us in an incredibly good position to deploy as needed.

Operator

And our next question comes from Scott Schneeberger from Oppenheimer.

Scott Schneeberger

I just wanted to touch base on -- I think it's pronounced Huebsch, the acquisition you made a quarter or 2 ago. Any learnings or just a progress report there? And any evolution or opportunity to offer new Cintas products, not only stemming from perhaps that, but from other acquisitions or ideas or initiatives you've come with recently?

Todd Schneider

Thanks for the question, Scott. Huebsch is how you pronounce it. And it's a company that we've admired for decades. And that was in a particular case where it was in the family for generations and the owner, Jim Vaudreuil passed away. And in the family, then saw it as the most appropriate decision to merge their business in with Cintas. So great example of an outstanding company, great customer relationships. We received capacity in those markets as well.

But the most important thing that we got there were certainly the people and the customers. We love the capacity but it's about the now Cintas employee partners and their customers. And every time we acquire a company, we learn and we get better as a result of that. We learned from them. Hopefully, they learn a little from us. But the most important thing is we get usually really good people. In that case, we absolutely did. And great customers that we're going to try to make sure we nurture and hang on to and grow.

Scott Schneeberger

Appreciate that. And for the follow-up, just free cash flow has been very strong this year. It looks like in working capital, you've been making a lot of improvement. Just curious what has occurred structurally perhaps thinking ahead to the out years, are you going to be able to achieve a new level? And how should we think about free cash flow as a percent of revenue perhaps? And are you moving in a very positive direction? And then maybe some discussion of how that's occurred.

J. Hansen

Sure, Scott. Free cash flow has been strong for us. And last year was quite a strong year, and we've grown about 15% over last year. We have generally, from a net income conversion to free cash flow, we've generally been in the 90% to 100% type of a range, and that's where we are this year, and that's where our expectation would be as we go into the next several years.

We have -- there are times, for example, where we may spend a little bit more on inventory as we did in the third quarter. You saw inventory go up just a little bit to maybe get out ahead of the tariffs. Todd talked about how we're dealing with tariffs and maybe make a little bit more of an investment in the near term to make sure that we've got the inventory we want at the cost that we want. And so there can be various quarters, ups and downs. But generally speaking, we like our ops cash flow to be in that [110 to 120] range, and we like our free cash flow to be in that 90% to 100% range. I would expect that going forward, too.

Operator

And our next question comes from Shlomo Rosenbaum from Stifel, Nicolaus.

Shlomo Rosenbaum

I just have a few questions out there. Todd, are you seeing any change at all competitively? One of your major competitors has just seen a lot of change on the top

of their organization. I was just wondering, is that something that you kind of noticed on the ground? Or is that not really noticed on the ground over the last kind of 1 year, 1.5 years?

Todd Schneider

Shlomo, thanks for the question. It's -- we operate in a very competitive industry. It always has been. So nothing noteworthy as far as change there. Certainly, we're aware of the changes in the organization at the top level of the organization you're speaking of. But I don't know that, that's changed any dynamic of how people are taking care of their customers and what have you. And just keep in mind that how we -- our new business wins tend to come from -- the vast majority are from, we call it no-programmers, those who are not renting when we walk in and when we will walk out, they are. So it's -- yes, we love winning business in all ways.

But for the past several decades, we've grown our business primarily by growing the pie of customers those who were sourcing products somehow. They might be buying it on the Internet or they might be buying it at Costco or Walmart or what have you. And then -- and we've shown them a better, faster, smarter way. Even with garments, especially with garments, I would say, everybody is wearing garments and then it's a matter of what's the best way to obtain those garments. So in fact, I've got a couple of examples I'll give you.

We recently converted over a large equipment manufacturer that was purchasing flame-resistant clothing from a competitor. They were really excited about our Carhartt branded flame-resistant clothing line, and they were looking for a higher quality garment to improve employee comfort and overall satisfaction. And as we dug into it, we were actually able to save them some dollars in the rental program because of the turnovers that they had.

And also our First Aid and Safety team, at the same time, was able to provide some essential training for that customer around their electrical program in conjunction with some recent OSHA guidance change on that subject. So that's an example where they were certainly wearing garments. They were -- but they weren't -- were not taking it from a rental competitor there, but it resulted for the customer in a safer, more compliant customer with happier wears and lower overall cost.

So I've got other examples like that we've seen. We just recently converted over a

Fortune 500 global field service company with thousands of remote service technicians that were in a direct purchase program. Again, they were dealing with long lead times, how do they repair the garments, how they replace them, size changes, new hires. And the challenge is the workforce doesn't report back to a central location. So in that case, we place them in a managed program where their employees were able to clean their own product, cleaning the garments, but we manage the inventory size changes, repairs placement.

So I give those examples because, yes, certainly, we're always interested in the competitive landscape. It's always been competitive, always will be, but we're -- we see the greatest opportunity is to expand that pie and sell programs, manage programs into companies that are buying product or haven't seen the value yet in having a uniform program, and we grow that pie. So it's really important to us. It's been a key strategic lever for us for decades and will continue into the future.

Shlomo Rosenbaum

Great. Just one follow-up for Mike. Can you just give us a heads up and what the days look like for the quarters and fiscal year '26 for our modeling? Like is the year the same? Are there any nuances between the quarters?

J. Hansen

Shlomo, they are all the same. As current -- as fiscal '25. So the quarters -- the days per quarter in fiscal '26 are the same as in fiscal '25, 65 in every quarter.

Operator

And our next question comes from Stephanie Moore from Jefferies.

Harold Antor

This is Harold Antor on for Stephanie Moore. So I guess just real quick on the tech investment side. You talked about SAP, SmartTruck and myCintas portal. I know you still have some -- I know you're still rolling it out. So if you could just provide us a sense of

where you are, at least like which inning you're in along that journey? And I guess if you're doing any other incremental tech investments in the business that you're waiting to materialize, that would be helpful.

Todd Schneider

Yes, Harold, we are -- thanks for the question. We are always making tech investments because it's important to make our employee partners more successful and provide more value to our customers. So specific to the myCintas portal, yes, it is rolled out. Once we roll out the Fire business onto SAP, all of our route-based businesses will be on that same portal. And we see advantages absolutely today, and we see advantages coming in the future as we expand it out but also offer more benefits to the customers.

So when you think about it, they can pay, they can service -- make service requests, they can manage their program in totality and they can buy. So all that is an additional conduit for the customer to be able to work with us and make it easier to work with us. So -- and that's a fundamental concept that we have here is that we want to make it easier for the customer to do business with us, and make it easier for our employee partners to do their jobs. So yes, you'll see continued investment in that, and that will be going on for many, many years.

Harold Antor

And I guess just on new verticals, health care, hospitality, food services. Anything to call out there? Are you seeing any new business wins in any particular vertical this quarter or any in the pipeline that you would like to call out? And then, I guess, also on the new business win side, it sounds like you've seen some new business wins on the larger side. So are you -- when you look at your new business wins, are they more so coming from national accounts now versus small businesses? Anything around there that would be helpful.

Todd Schneider

Thanks for the question, Harold. Just to address the back half of your question. The examples I gave you were a couple of larger ones, but we have wins of all shapes and

sizes, all industries, really small companies or larger ones, you name it, we have it. But as far as the verticals are concerned, they're all performing well. We're happy with our investments there. We think we've chosen really good verticals. And we've organized around them as well, servicing them, selling them, managing them, all that is very important.

In the health care, I'll give you a couple -- you asked for a couple of examples of wins. We rolled out our health care privacy curtain business product line about a year or so ago. And we just recently sold a large multistate health care network that were into this privacy curtain service. Prior to us, the customer was trying to manage the tracking, the exchange, the cleaning of the curtains themselves, which is what most of that market is. And we came in with our patented curtain system and proprietary technology, and it had a really positive impact on their business.

We received a letter from the customer, and they told us the following. They told us, first off, that our services has allowed them to have -- to now achieve 100% compliance with regulators. The program has generated over 20% savings -- cost savings for them, from them managing themselves. It has also helped them reduce hospital-acquired infections, which is obviously very, very important. And then lastly, our programs enhance the patient and employee satisfaction level at the hospital network. So a lot of wins there, and that came from the customer.

And I'll give you one other one. We had, from a health care scrub dispensing program, we converted over recently a 14 hospital network that was renting scrubs from a traditional supplier, but one that had inadequate inventory control. And as a result, lost scrubs were a real problem for the customer and showing up in loss charges and a lack of supply for the wearers, which was a real pain point for the administrators, the hospital administrators, because, yes, the cost was a real problem. But when they didn't have product for the employees then that's a really big problem.

So we deployed our patented dispensing technology, which eliminated the loss charges and the frustration around the lack of supply. But it also allowed us to invest in a more comfortable high-quality scrub, add a net savings for the customer. So a real win-win for the health care worker and the administrators. And another example of -- in both those cases, we're deploying better products, technology, positioning our people to take better care of the customer. And in most -- almost all those cases, we're helping to save them money.

Operator

And our next question comes from Toni Kaplan from Morgan Stanley.

Toni Kaplan

I was hoping you could give us an update on cross-selling, how many products on average, each customer is purchasing, how that's trended. Just maybe -- what -- where are you seeing the most cross-selling or add-ons? Like is there a specific type of product or within a certain vertical? Just anything on cross-selling would be helpful.

Todd Schneider

Toni, great question. Our cross-selling efforts are going quite well with -- but we're still very much in the early innings. As I think we've described in the past, our most penetrated item are walk-off mats. But we have opportunities to sell a vast majority of our products into our -- even our rental customers separate from that to cross-sell within the business unit. So we're really having great success with each of them.

Our Fire business is the only business that we're in, where you legally have to have it in order to operate your business. So every business in the country is a prospect for us in that case. So that's certainly a simpler one because every customer that we service is a great candidate for our fire service, whether it be sprinkler, alarm, fire extinguishers, emergency lights, et cetera. But we're having great success and continue to have great success with cross-selling our First Aid products, AEDs, eye wash, WaterBreak, First Aid cabinets. That's going quite well. But the opportunity we have is immense to cross-sell and upsell within our current customer base, all while we're focused on bringing in additional customers into the fray.

Toni Kaplan

Great. And then just as a follow-up on outsourcing. We talked about it a couple of times how there could be an opportunity if customers want to reduce their budgets that you can provide some help to them there. Just wanted to get a sense of, historically, when

you've seen sort of periods of budget tightening or uncertainty. Like do you tend to see that outsourcing accelerate? Like just -- obviously, that could be offset by other things. But do you -- have you seen that historically and just maybe an update on outsourcing and how that's been trending over the last, call it, few months?

Todd Schneider

Toni, it's a good question. When -- if a customer cuts back on the number of employees that they may have, there's still work to be done. And in many cases, they look to an alternative source to help them get that work done. And because we're there, we have eyes, ears and minds in our customers on a very, very frequent basis. It allows us to see opportunities and help them with those. In many cases, we'll hear from them, oh my gosh, you can take care of this for me. Thank you. I don't have to put the cash flow upfront, and I can just outsource it to you. So that happens. That absolutely happens.

When customers are trying to cut back on cost, in many cases, they might be spending money in another -- with another vendor that not a traditional direct competitor that you would think of, but they might be buying it from website or a retail network. So -- and as a result, in many cases, because we're there and we can manage it for them, we can help them reduce the cost of running the program and allow them to be freed up to take care of their employees and their customers.

So we see that as an opportunity. It has been an opportunity and will be in the future, and we'll pivot as appropriate based upon what we see with our customer base.

Operator

And our next question comes from Jason Haas from Wells Fargo.

Jason Haas

I wanted to follow up to response to an earlier question on pricing to see if you could put a finer point on it. I think you had said that we're right in the historical range, which my understanding of the historical range was that's 0% to 2%. And I thought at least as of last quarter, the pricing was running more like 2%. So I wasn't sure if that implies that there's been further moderation in pricing from last quarter and now we should think

about closer to the midpoint of that range. So if you could just help kind of clarify that, that would be helpful.

Todd Schneider

Well, Jason, the way I'd describe it is, pricing hasn't changed. It's exactly where it was last quarter, which is about historical levels. And so really no change to the environment from what we described last quarter.

Jason Haas

Got it. Okay. That's helpful. And then just on the incremental margins on the thought that 25% to 35% is the right range. I think we're going to be -- definitely will be above that this year, it seems. So can you help me just understand what will drive the incremental margins back down to that 25% to 35% range? I'm not sure exactly what the gain on sale -- the \$15 million gain on sale. So like I assume that's not a recurring. I don't know if there's vehicle sales or what, but I assume that's not a recurring benefit. And then I know that there's the SAP implementation for Fire, but is there anything else to think about that sort of brings those incremental margins back down lower going forward?

Todd Schneider

Well, Jason, first off, that land sale was -- is not reoccurring. So that was a one-timer. And as far as incrementals moving forward, we're constantly making investments. So it's running a business is not linear, and we suspect that we'll have over time incrementals between 25% and 35%, which we're really proud of and I think are really attractive and right where we want to be. We want to make sure we're investing appropriately in the business. And so we're doing exactly that, whether it comes from -- we'll be, to your point, investing in technology. We're investing in infrastructure, more products and services, training. All those items are very important for us so that we can continue to provide a great working environment for our employee partners and a great value proposition for our customers.

J. Hansen

Jason, I might add, there are times also when you're -- when we're computing that incremental margin where last year's margin has an impact. So for example, especially if you remove the \$15 million settlement from a year ago, our second half of fiscal '24 was -- we made a nice jump in operating margin. And so when you do that, that also has an impact on that incremental calculation. So it's dependent on where we were last year, what our levels and cadence of investments are this year as well. But the really good news is, as Todd has been saying, our initiatives -- these initiatives that we talk about all the time, they are not onetime, but they are just changing the way we do business, and that gives us confidence that we can still work in that range for years to come.

Operator

And our next question comes from Leo Carrington from Citigroup.

Leo Carrington

On the topic of M&A away from UniFirst itself, are there any other large M&A targets in North America? And if not in Uniform Rentals, where does this leave you? Other route-based service targets of interest maybe outside of North America? Or are you just solely focused on the tuck-ins otherwise?

Todd Schneider

Yes, Leo, thanks for the question. We really don't get into any particular M&A -- particular deals. But I'll say that our focus is on North America. We still see a great runway there. We service 1 million customers. There are 17 million businesses in the U.S. and Canada. So we see the opportunity to -- and what is still a very fragmented business for M&A as an opportunity, but also just the selling more customers and bringing on more customers. So we don't see a need to expand outside of North America at this point. We're always watching. And we have relationships with the appropriate people in the various geographies, which we stay in touch with because we want to make sure we're in touch with the market.

But we don't see a need. We have an incredible opportunity here in North America, what

we think is the greatest economy in the world, and that's where our focus is. And as far as any particular M&A, we're not -- we're interested in buying great companies. They have great customers and great employees that we can bring into the Cintas family.

Operator

And at this time, there are no further questions. I'd like to turn the call back over to Jared for some closing remarks.

Jared Mattingley

Thank you for joining us this morning. We will issue our fourth quarter of fiscal '25 financial results in July. We look forward to speaking with you again at that time. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.