

## Archer Daniels (ADM)

**\$49.86** (As of 11/13/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

### Summary

Shares of Archer Daniels outpaced the industry year to date, courtesy of its robust earnings surprise trend. During third-quarter 2020, the company's bottom line beat the Zacks Consensus Estimate for the fifth straight quarter. Results gained from the Readiness program, positive cash flow and solid performance at the Nutrition unit. The Nutrition segment reported fifth consecutive quarter of operating profit growth of more than 20% year over year on significant gains in Human and Animal Nutrition units. The company remains on track with its Strive 35 sustainability goals and probiotics expansion. Aided by these initiatives, management anticipates a sturdy fourth quarter and sustained momentum for 2021. However, it is witnessing declining revenues trend, which along with rising costs remain concerns. Further, stiff competition is a woe.

### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$52.05 - \$28.92           |
| 20-Day Average Volume (Shares) | 3,296,149                   |
| Market Cap                     | \$27.7 B                    |
| Year-To-Date Price Change      | 7.6%                        |
| Beta                           | 0.87                        |
| Dividend / Dividend Yield      | \$1.44 / 2.9%               |
| Industry                       | Agriculture - Operations    |
| Zacks Industry Rank            | Bottom 20% (204 out of 254) |

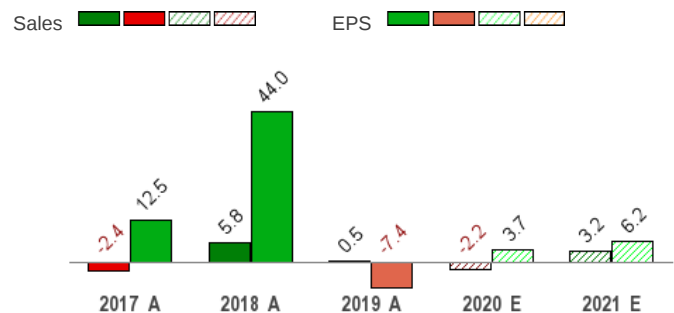
|                               |       |
|-------------------------------|-------|
| Last EPS Surprise             | 25.4% |
| Last Sales Surprise           | -9.9% |
| EPS F1 Estimate 4-Week Change | 7.9%  |
| Expected Report Date          | NA    |
| Earnings ESP                  | 0.0%  |

|         |      |
|---------|------|
| P/E TTM | 13.1 |
| P/E F1  | 14.8 |
| PEG F1  | NA   |
| P/S TTM | 0.4  |

### Price, Consensus & Surprise



### Sales and EPS Growth Rates (Y/Y %)



### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | 15,956 E | 16,475 E | 15,711 E | 16,975 E | 65,203 E |
| 2020 | 14,970 A | 16,281 A | 15,126 A | 16,283 E | 63,202 E |
| 2019 | 15,304 A | 16,297 A | 16,726 A | 16,329 A | 64,656 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.79 E | \$0.84 E | \$0.93 E | \$1.08 E | \$3.57 E |
| 2020 | \$0.64 A | \$0.85 A | \$0.89 A | \$1.03 E | \$3.36 E |
| 2019 | \$0.46 A | \$0.60 A | \$0.77 A | \$1.42 A | \$3.24 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/13/2020. The reports text is as of 11/16/2020.

## Overview

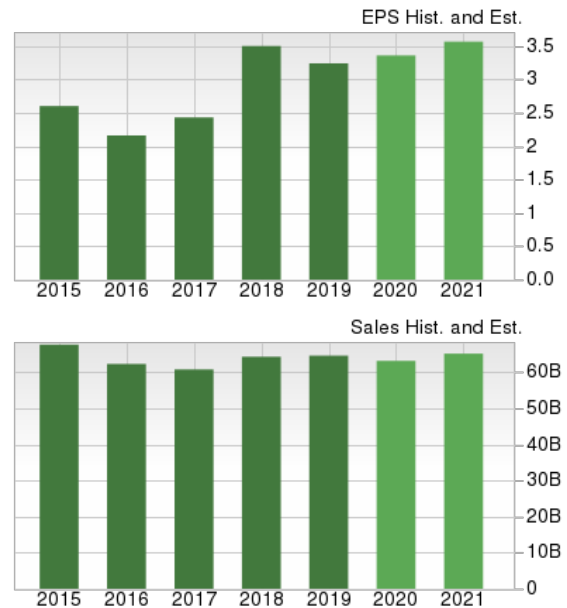
Incorporated in Delaware in 1923, Archer Daniels Midland Company is successor to the Daniels Linseed Co. Founded in 1902, this Illinois-based company is one of the leading producers of food and beverage ingredients as well as goods made from various agricultural products.

The company processes oilseeds, corn, wheat, cocoa and other feedstuffs. Moreover, it engages in the manufacturing, sale, and distribution of products like natural flavor ingredients, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition products as well as other specialty food and feed ingredients.

Archer Daniels also has a worldwide grain elevator and transportation network for procurement, storage, cleansing and transportation of agricultural commodities. Archer Daniels also makes important investments in joint ventures to aid growth.

Starting first-quarter 2018, the company realigned its business segments to reflect a new operating structure. It currently reports through the Carbohydrate Solutions, Nutrition, Oilseeds and Origination segments.

On May 29, 2019, Archer Daniels created a new business unit, namely, Ag Services & Oilseeds. The unit combined the company's Origination and Oilseed operations in a single reporting structure which came into operations from Jul 1, 2019.



- The **Ag Services & Oilseeds** (75.4% of 2019 total revenues) includes the Agricultural Services business, excluding Milling and engages in originating, merchandising, crushing and processing oilseeds.
- The **Carbohydrate Solutions** segment (15.3%) comprises the Corn and Milling operations.
- **Nutrition** segment (8.8%) includes Animal Nutrition and Bioactives businesses as well as the Wild Flavors & Specialty Ingredients segment (WFSI).
- The **Other** segment (0.5%) primarily includes the company's financial business units. However, it makes negligible contribution to the company's revenues.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Robust Q3 Earnings:** Archer Daniels reported mixed third-quarter 2020 results, wherein the bottom line surpassed the Zacks Consensus Estimate but sales lagged the same. Moreover, adjusted earnings of 89 cents per share improved 15.6% from the year-ago quarter. Amid the ongoing COVID-19 crisis, results gained from the Readiness program, positive cash flow and solid performance at the Nutrition unit. This marked the company's fifth straight quarter of delivering earnings surprise. The company remains on track with its Strive 35 sustainability goals, probiotics expansion as reflected in the new state-of-the-art facility in Valencia and collaboration with Spiber in a bid to produce plant-based polymers. Driven by these initiatives, management expects a sturdy fourth quarter and sustained momentum for 2021. Shares of the company have gained 7.5% year to date, compared with the industry's growth of 6.6%.

Archer Daniels' Q3 gained from the Readiness program, positive cash flow and solid performance at the Nutrition unit. This marked its fifth straight quarter of earnings surprise.

▲ **Nutrition Segment Aids Performance:** Archer Daniels is gaining from robust performance at its Nutrition segment. The segment benefitted from healthy demand for pet food and treats as well as strength in flavors along with positive sales mix, gross margin expansion in North America. Although revenues for the Nutrition segment declined 0.4% during the third quarter 2020, the segment's adjusted operating profit of \$147 million improved 24.6% from \$118 million in the year-ago quarter. Notably, the company reported fifth consecutive quarter of operating profit growth of more than 20% year over year for the Nutrition segment. This uptick can be attributable to significant gains in Human and Animal Nutrition units. The Human Nutrition division benefitted from its diversified portfolio and higher sales of North America flavors. The Animal Nutrition unit witnessed sustained growth driven by a solid performance from Neovia, robust demand for amino acids and sturdy sales in pet care, which were somewhat offset by soft demand for aqua-culture feed and currency headwinds.

Prior to this, revenues from Nutrition segment increased 8% at cc in the second quarter and 26.5% on a reported basis in the first quarter of 2020. Earlier, the metric rose 57%, 58%, 49.7% and 34.9%, in the fourth, third, second and first quarters of 2019, respectively. Management remains optimistic about this unit and envisions operating growth of nearly 20% in fourth-quarter 2020.

▲ **Strategic Initiatives:** Archer Daniels has been significantly progressing on its three strategic pillars — optimize, drive, and growth. Under the optimize pillar, the company is on track with improvement in its key businesses - the Decatur complex, Golden Peanut and Three Nuts business. The company is restructuring its North American wheat milling footprint by shutting old less efficient mills and opening new, state-of-the-art facility in Mendota. Further, under the growth pillar, the company is looking to expand its footprint in fast growing alternative protein through partnership with Marfrig. The company is also considering enhancing its animal nutrition capabilities. Also, Archer Daniels opened a modern technology center in Decatur and new feed production facility in Vietnam.

▲ **Financial Flexibility:** Archer Daniels ended third-quarter 2020 with a total debt of \$7.924 million, up 3.6% from \$7,646 million in the prior-quarter. Its debt-to-capitalization ratio of 0.29 reflects a sequential improvement from 0.31 reported in the prior quarter. As of Sep 30, 2020, the company's cash and cash equivalents of \$948 million were sufficient to sponsor its short-term debt of \$211 million. This shows that Archer Daniels is well-positioned to meet its debt obligations. Further, management is undertaking precautionary measures to strengthen its financial position amid the COVID-19 crisis. It has reduced capital spending to roughly \$800 million for 2020, down from its earlier guided view. Also, it has a global credit facility of \$10 billion, which is likely to help the company stay afloat during this pandemic.

▲ **Project Readiness Bodes Well:** Archer Daniels is on track with the Readiness goals of driving business improvement, standardizing functions and enriching consumers' experience. As a part of readiness efforts, the company introduced a company-wide simplification initiative. The company's strategic pillars for growth as well as the aforementioned new initiatives are guided and supported by the Readiness program, focused on accelerating and enhancing competitiveness. Since launch of the program, the company generated \$1.2 billion in run-rate benefits on an annual basis. The company now remains on track to deliver \$1.3 billion savings by the end of 2020.

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## Reasons To Sell:

- ▼ **Dismal Q3 Revenues:** Archer Daniels' third-quarter 2020 revenues declined 9.6% year over year to \$15,126 million and missed the Zacks Consensus Estimate. Drab sales across all segments weighed on the top line. Segment-wise, revenues for the Nutrition, Carbohydrate Solutions and the Ag Services & Oilseeds segments declined 0.4%, 19.5% and 8.6% year over year, respectively. Prior to this, revenues fell 0.1% and 2.2% in the second and first quarters, respectively. Persistence of this trend may hurt the company's top line further.
- ▼ **Higher SG&A Expenses:** Archer Daniels is grappling with rising costs. Any deleverage in SG&A expenses has a direct bearing on the company's profitability. We note that SG&A expenses increased \$58 million to \$636 million in third-quarter 2020. Prior to this, SG&A expenses increased \$36 million and \$5 million in the second and first quarters, respectively. Any further leverage in SG&A expenses may weigh on the company's bottom line in the near term.
- ▼ **Risk of Operating in Overseas Markets:** Archer Daniels' financial performance may be adversely affected due to its significant presence in the international market, which exposes it to unfavorable foreign currency translations, economic or political instability, and other governmental actions on trade and repatriation of foreign profits.
- ▼ **Intense Competition May Adversely Impact Operations:** Archer Daniels faces intense competition from its rivals, such as Cargill Inc., Bunge Ltd. and Corn Products International Inc. in all segments of the markets where it operates. These markets are extensively competitive and hence, the company faces the risk of availability of substitutes. Being part of such a competitive industry, Archer Daniels may find it difficult to execute and implement new business strategies, which in turn, may impact its operations adversely.

Sluggish sales across all segments weighed on Archer Daniels' third-quarter revenues. Also, high costs remain a woe.

## Last Earnings Report

### Archer Daniels' Q3 Earnings Beat Estimates, Sales Lag

Archer Daniels reported mixed third-quarter 2020 results, wherein the bottom line surpassed the Zacks Consensus Estimate while sales lagged the same. Amid the ongoing COVID-19 crisis, results gained from the Readiness program, positive cash flow and solid performance at the Nutrition unit. Notably, the company reported fifth consecutive quarter of operating profit growth of more than 20% year over year for the Nutrition segment.

Going ahead, the company remains on track with its Strive 35 sustainability goals, probiotics expansion as reflected in the new state-of-the-art facility in Valencia and collaboration with Spiber in a bid to produce plant-based polymers. Driven by these plans, management anticipates a sturdy fourth quarter and sustained momentum for 2021.

Adjusted earnings of 89 cents per share in the third quarter rose 15.6% from the year-ago quarter and outpaced the Zacks Consensus Estimate of 71 cents. On a reported basis, the company's earnings were 40 cents per share, down 44.4% from the prior-year quarter's 72 cents.

Revenues declined 9.6% year over year to \$15,126 million and missed the Zacks Consensus Estimate of \$16,783 million. Drab sales across all segments weighed on the top line.

Segment-wise, revenues for the Nutrition, Carbohydrate Solutions and the Ag Services & Oilseeds segments declined 0.4%, 19.5% and 8.6% year over year to \$1,451 million, \$2,064 million and \$11,527 million, respectively.

Gross profit fell 3.3% year over year to \$1,042 million, while gross margin expanded 50 basis points (bps) to 6.9% in the quarter under review. SG&A expenses rose 10% to \$636 million.

Moreover, Archer Daniels reported adjusted segment operating profit of \$849 million in third-quarter 2020, up 11.1% from the year-ago quarter. On a GAAP basis, the company's segmental operating profits improved nearly 19.3% year over year to \$904 million.

### Segment Operating Profit Discussion

Adjusted operating profit at **Ag Services & Oilseeds** increased 4.6% year over year to \$436 million. Operating results gained from solid performance in North America, driven by higher volumes and improved margins. However, a slow-selling season for Brazilian farmers compared to the first half of 2020 led to sluggishness in South America. Also, unfavorable timing acted as a deterrent.

Despite improved margins in North and South America on the back of healthy demand for meal and oil, the crushing business was sluggish year over year due to soft margins in EMEA. Operating results for Refined Products and Other improved year over year, driven by solid margins in biodiesel globally and robust performance in Packaged oils in South America.

The **Carbohydrate Solutions** segment's adjusted operating profit grew 35.2% to \$246 million owing to a higher demand for Starches in North America and improved wet mill ethanol margins stemming from a balance in supply and demand of the ethanol industry. Also, the unit gained from reduced net corn expenses and risk control measures. Apart from these, sturdy demand and lower input costs contributed to segment growth. Meanwhile, Vantage Corn Processors performed well year over year on the back of improved industry ethanol margins and higher volumes and margins of USP-grade industrial alcohol for hand sanitizers.

In the **Nutrition** segment, adjusted operating profit of \$147 million rallied 24.6% from \$118 million in the year-ago quarter owing to significant gains in Human and Animal Nutrition units. The Human Nutrition division benefited from its diversified portfolio and higher sales of North America flavors. The Animal Nutrition unit witnessed sustained growth in the quarter under review, driven by a solid performance from Neovia, strong demand for amino acids and sturdy sales in pet care, which were somewhat offset by soft demand for aquaculture feed and currency headwinds.

### Other Financials

Archer Daniels ended the quarter with cash and cash equivalents of \$948 million, long-term debt, including current maturities, of \$7,924 million and shareholders' equity of \$19,341 million.

In the nine months ending Sep 30, 2020, the company used \$1,516 million in cash for operating activities. Additionally, it bought back shares of \$117 million and paid out dividends of \$607 million in the said period.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 29, 2020 |
| Sales Surprise   | -9.87%       |
| EPS Surprise     | 25.35%       |
| Quarterly EPS    | 0.89         |
| Annual EPS (TTM) | 3.80         |

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## Recent News

### Archer Daniels Declares Dividend – Nov 5, 2020

Archer Daniels declared quarterly cash dividend of 36 cents per share, which is paid on Dec 10, 2020 to its shareholders of record as of Nov 19.

### Archer Daniels Extends Agreement With Spiber – Oct 5, 2020

Archer Daniels in collaboration with Japan-based biomaterials company Spiber recently agreed to expand the production of the latter's innovative Brewed Protein polymers. Archer Daniels' proficiency in large-scale fermentation technologies, engineering and extensive agricultural supply chain, when combined with Spiber's cutting-edge structural protein-fermentation technology, will most likely make the deal fruitful.

Under the latest collaboration extension, Archer Daniels will produce Brewed Protein in the United States with the use of plant-based dextrose as a feedstock. This will be then shipped to Spiber's downstream facilities. Here, these will be processed into a range of materials, mainly fibers, for using in various applications and consumer products including apparel, high-performance foams and lightweight auto parts, among others.

### Archer Daniels Declares Dividend – Aug 5, 2020

Archer Daniels declared quarterly cash dividend of 36 cents per share, which is paid on Sep 9, 2020 to its shareholders of record as of Aug 19.

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## Valuation

Archer Daniels shares are up 7.5% in the year-to-date period and nearly 16.4% for the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.6% but those in the Zacks Consumer Staples sector are down 1.4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 19.4% and 2%, respectively.

The S&P 500 index is up 11.6% in the year-to-date period and 15.3% in the past year.

The stock is currently trading at 14.09X forward 12-month earnings, which compares to 16.11X for the Zacks sub-industry, 20.03X for the Zacks sector and 22.56X for the S&P 500 Index.

Over the last five years, the stock has traded as high as 20.25X and as low as 8.81X, with a 5-year median of 14.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$53 price target reflects 15X forward 12-month earnings.

The table below shows summary valuation data for ADM

| Valuation Multiples - ADM |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 14.09 | 16.11        | 20.03  | 22.56   |
|                           | 5-Year High   | 20.25 | 16.28        | 22.37  | 23.47   |
|                           | 5-Year Low    | 8.81  | 10.6         | 16.61  | 15.27   |
|                           | 5-Year Median | 14.36 | 14.38        | 19.56  | 17.72   |
| P/S F12M                  | Current       | 0.43  | 0.48         | 9.85   | 4.2     |
|                           | 5-Year High   | 0.44  | 0.51         | 11.16  | 4.3     |
|                           | 5-Year Low    | 0.24  | 0.19         | 8.14   | 3.17    |
|                           | 5-Year Median | 0.37  | 0.27         | 9.89   | 3.67    |
| EV/EBITDA TTM             | Current       | 9.13  | 8.62         | 39.18  | 15.98   |
|                           | 5-Year High   | 14.28 | 10.64        | 45.71  | 15.98   |
|                           | 5-Year Low    | 5.93  | 4.33         | 27.69  | 9.54    |
|                           | 5-Year Median | 9.12  | 7.16         | 38.99  | 13.1    |

As of 11/13/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 20% (204 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                  | Rec          | Rank |
|-----------------------------------|--------------|------|
| Bunge Limited (BG)                | Outperform   | 1    |
| United Natural Foods, Inc. (UNFI) | Outperform   | 1    |
| B&G Foods, Inc. (BGS)             | Neutral      | 3    |
| Corteva, Inc. (CTVA)              | Neutral      | 2    |
| Limoneira Co (LMNR)               | Neutral      | 3    |
| Metabolix, Inc. (YTEN)            | Neutral      | 3    |
| Adecoagro S.A. (AGRO)             | Underperform | 3    |
| Calavo Growers, Inc. (CVGW)       | Underperform | 5    |

The positions listed should not be deemed a recommendation to buy, hold or sell.

| Industry Comparison Industry: Agriculture - Operations |           |            |           | Industry Peers |              |          |
|--------------------------------------------------------|-----------|------------|-----------|----------------|--------------|----------|
|                                                        | ADM       | X Industry | S&P 500   | AGRO           | CVGW         | LMNR     |
| Zacks Recommendation (Long Term)                       | Neutral   | -          | -         | Underperform   | Underperform | Neutral  |
| Zacks Rank (Short Term)                                | 3         | -          | -         | 3              | 5            | 3        |
| VGM Score                                              | B         | -          | -         | A              | A            | C        |
| Market Cap                                             | 27.74 B   | 210.94 M   | 24.89 B   | 612.36 M       | 1.26 B       | 262.61 M |
| # of Analysts                                          | 6         | 1.5        | 14        | 2              | 2            | 3        |
| Dividend Yield                                         | 2.89%     | 0.00%      | 1.51%     | 0.00%          | 1.61%        | 2.04%    |
| Value Score                                            | B         | -          | -         | A              | B            | C        |
| Cash/Price                                             | 0.24      | 0.18       | 0.07      | 0.43           | 0.00         | 0.00     |
| EV/EBITDA                                              | 9.80      | 2.32       | 14.40     | 2.48           | 16.20        | 93.22    |
| PEG F1                                                 | NA        | 3.84       | 2.74      | NA             | NA           | 5.36     |
| P/B                                                    | 1.43      | 1.15       | 3.58      | 0.71           | 4.69         | 1.27     |
| P/CF                                                   | 9.83      | 6.91       | 13.66     | 2.36           | 18.86        | 315.62   |
| P/E F1                                                 | 14.98     | 19.67      | 21.82     | NA             | 23.89        | 80.40    |
| P/S TTM                                                | 0.44      | 1.22       | 2.80      | 0.74           | 1.13         | 1.53     |
| Earnings Yield                                         | 6.74%     | 2.53%      | 4.39%     | -8.03%         | 4.18%        | 1.22%    |
| Debt/Equity                                            | 0.41      | 0.24       | 0.70      | 0.84           | 0.02         | 0.59     |
| Cash Flow (\$/share)                                   | 5.07      | 0.05       | 6.92      | 2.22           | 3.79         | 0.05     |
| Growth Score                                           | C         | -          | -         | B              | A            | C        |
| Historical EPS Growth (3-5 Years)                      | 12.45%    | 16.44%     | 9.77%     | 99.95%         | 6.16%        | 94.97%   |
| Projected EPS Growth (F1/F0)                           | 3.65%     | 25.37%     | 0.37%     | -223.53%       | 63.66%       | 138.46%  |
| Current Cash Flow Growth                               | -3.42%    | 15.85%     | 5.23%     | 5.84%          | 17.65%       | -94.50%  |
| Historical Cash Flow Growth (3-5 Years)                | -1.15%    | 5.13%      | 8.33%     | 13.14%         | 15.90%       | -40.15%  |
| Current Ratio                                          | 1.64      | 1.64       | 1.38      | 1.52           | 1.41         | 1.78     |
| Debt/Capital                                           | 29.28%    | 22.10%     | 42.01%    | 45.59%         | 2.14%        | 35.87%   |
| Net Margin                                             | 2.53%     | -8.94%     | 10.40%    | -10.83%        | -1.31%       | -7.05%   |
| Return on Equity                                       | 11.10%    | -0.36%     | 15.07%    | 9.20%          | 10.31%       | -4.17%   |
| Sales/Assets                                           | 1.38      | 0.40       | 0.50      | 0.34           | 2.52         | 0.43     |
| Projected Sales Growth (F1/F0)                         | -2.25%    | 0.00%      | 0.23%     | -14.33%        | 11.32%       | 15.64%   |
| Momentum Score                                         | C         | -          | -         | D              | A            | D        |
| Daily Price Change                                     | 1.07%     | 0.62%      | 2.02%     | 4.81%          | 1.03%        | 2.65%    |
| 1-Week Price Change                                    | 4.39%     | 0.21%      | 5.72%     | -2.48%         | 2.77%        | 1.01%    |
| 4-Week Price Change                                    | -0.16%    | 0.00%      | 4.84%     | 5.02%          | 3.29%        | -1.47%   |
| 12-Week Price Change                                   | 14.65%    | 1.34%      | 9.72%     | 5.44%          | 11.97%       | -3.60%   |
| 52-Week Price Change                                   | 16.55%    | -0.91%     | 6.16%     | -17.64%        | -14.88%      | -21.51%  |
| 20-Day Average Volume (Shares)                         | 3,296,149 | 27,154     | 2,164,670 | 130,503        | 68,599       | 29,717   |
| EPS F1 Estimate 1-Week Change                          | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%    |
| EPS F1 Estimate 4-Week Change                          | 7.87%     | 0.00%      | 2.00%     | 3.82%          | 0.00%        | 0.00%    |
| EPS F1 Estimate 12-Week Change                         | 8.80%     | -3.23%     | 3.94%     | -63.64%        | -3.23%       | -30.38%  |
| EPS Q1 Estimate Monthly Change                         | 6.21%     | 0.00%      | 0.68%     | NA             | 0.00%        | 0.00%    |

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>B</b> |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

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## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.