

## Archer Daniels (ADM)

**\$63.99** (As of 06/16/21)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 04/29/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

### Summary

Shares of Archer Daniels have outpaced the industry in the past three months, courtesy its strong first-quarter 2021 results wherein the top and the bottom line rose year over year. This marked its seventh straight quarter of an earnings surprise. Despite the tough environment, it reported the sixth straight quarter of adjusted operating profit growth. Solid demand for majority of its products also drove results. Strength in the Nutrition as well as the Ag Services and Oilseeds units drove its top-line performance. Management is optimistic about 2021 and envisions another year of strong earnings growth. The company is also on track with strategic growth initiatives as part of the Readiness program. However, dismal revenues in the Carbohydrate Solutions unit have been a drag for the past few quarters. Also, rising SG&A costs remain a concern.

### Price, Consensus & Surprise



### Data Overview

52-Week High-Low **\$69.30 - \$37.54**

20-Day Average Volume (Shares) **2,384,996**

Market Cap **\$35.8 B**

Year-To-Date Price Change **26.9%**

Beta **0.90**

Dividend / Dividend Yield **\$1.48 / 2.3%**

Industry **Agriculture - Operations**

Zacks Industry Rank **Bottom 21% (199 out of 252)**

Last EPS Surprise **39.0%**

Last Sales Surprise **12.6%**

EPS F1 Estimate 4-Week Change **2.1%**

Expected Report Date **08/04/2021**

Earnings ESP **1.0%**

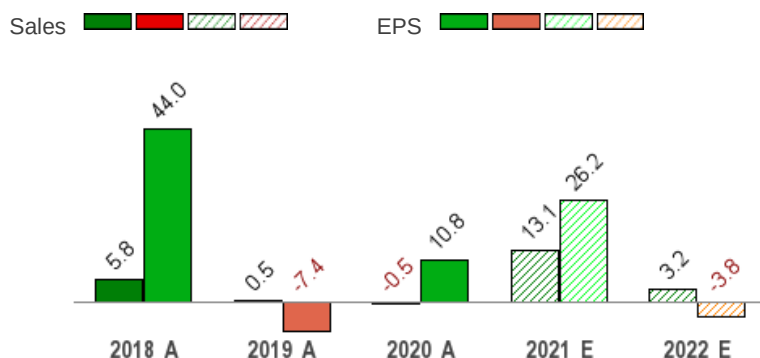
P/E TTM **14.7**

P/E F1 **14.1**

PEG F1 **2.9**

P/S TTM **0.5**

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



### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | 18,758 E | 20,751 E | 18,563 E | 20,918 E | 75,145 E |
| 2021 | 18,893 A | 18,328 E | 16,895 E | 19,901 E | 72,807 E |
| 2020 | 14,970 A | 16,281 A | 15,126 A | 17,978 A | 64,355 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.13 E | \$1.09 E | \$1.12 E | \$1.38 E | \$4.36 E |
| 2021 | \$1.39 A | \$0.96 E | \$0.91 E | \$1.26 E | \$4.53 E |
| 2020 | \$0.64 A | \$0.85 A | \$0.89 A | \$1.21 A | \$3.59 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 06/16/2021. The report's text and the

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analyst-provided price target are as of 06/17/2021.

## 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.

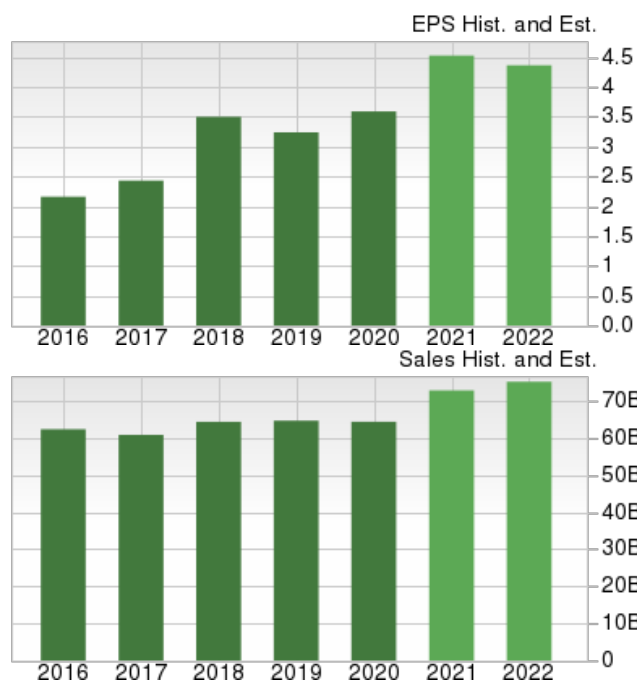
On May 29, 2019, Archer Daniels created a new business unit, namely, Ag Services & Oilseeds. The unit combined the company's Origination and Oilseed operations in a single reporting structure which came into operations from Jul 1, 2019.

The Ag Services & Oilseeds (77.2% of 2020 total revenues) includes the Agricultural Services business, excluding Milling and engages in originating, merchandising, crushing and processing oilseeds.

The Carbohydrate Solutions segment (13.2%) comprises the Corn and Milling operations.

Nutrition segment (9%) includes Animal Nutrition and Bioactives businesses as well as the Wild Flavors & Specialty Ingredients segment (WFSI).

The Other segment (0.6%) 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 Q1 Earnings:** Shares of Archer Daniels have rallied 11% in the past three months versus the industry's growth of 2%. The stock's bullish run on the bourses can be attributed to strong first-quarter 2021 results, wherein the top and the bottom line surpassed the Zacks Consensus Estimate and advanced year over year. This marked the company's seventh straight quarter of an earnings surprise. Despite the tough environment, the company reported the sixth straight quarter of adjusted operating profit growth. Also, solid demand for majority of its products contributed to quarterly growth. Notably, revenues advanced 26.2% year over year to \$18,893 million driven by solid sales across majority of its segments. Moreover, adjusted earnings of \$1.39 per share surged more than two folds compared with 64 cents in the year-ago quarter. The company is optimistic about 2021 and envisions another year of strong earnings growth. Moreover, it anticipates significant year-over-year growth across all its segments in 2021.

Archer Daniels' Q1 results reflect solid demand for majority of its products. Also, growth in the Nutrition and the Ag Services & Oilseeds segments bode well.

▲ **Nutrition Segment Aids Performance:** Archer Daniels is gaining from robust performance at its Nutrition segment. During first-quarter 2021, revenues at the segment rose 35.5% year over year to \$1,563 million. Moreover, the segment's adjusted operating profit grew 8.5% to \$154 million during the first quarter on significant gains in the Human Nutrition unit. The division gained from higher sales across various segments, particularly beverages. Also, positive product mix in both North America and strong margins in EMEA regions were upsides. Further, Health and Wellness performed well year over year, driven by demand for probiotics and fibers. We note that the company is on track with innovations to further boost performance in the Nutrition segment. The company is looking to enhance plant-based protein capabilities. Going ahead, management is optimistic about the performance of this unit on continued demand for flavors and proteins. Also, animal nutrition products are likely to witness a recovery in the second quarter as restrictions begin to ease in the coming days.

▲ **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. Moreover, as part of the company's optimizing pillar, it continues to adapt with consumers changing nutritional preferences. Under its drive pillar, the company continues to adapt its organizational structure to meet operational excellence and set goals. Further, under the growth pillar, the company is looking to expand its footprint in fast growing alternative protein. The company is also considering at enhancing its animal nutrition capabilities. Also, Archer Daniels is utilizing innovative technologies to develop new products and boost operating capabilities.

▲ **Financial Flexibility:** Archer Daniels ended first-quarter 2021 with long-term debt (including current maturities) of \$8,437 million, up 7% on a sequential basis. However, the company's times interest earned ratio stands at 7.8, which reflects an improvement from 6.6 in the prior quarter. Further, management is undertaking precautionary measures to strengthen its financial position and manage cash flows. During 2020, it undertook efforts to manage capital spending effectively. The company earlier expected capital spending to be \$900 million and \$1 billion for 2021. Additionally, it paid out dividends of \$208 million in the first-quarter 2020. That said, with a liquidity of \$7.7 billion, the company is likely to stay afloat amid this crisis.

▲ **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.

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## Risks

- **Dismal Carbohydrate Solutions' Unit Revenues:** During the first quarter of 2021, Archer Daniels' Carbohydrate Solutions unit revenues declined nearly 4%. Prior to this, revenues at the segment declined 16.1% and 19.5% in the fourth and third quarter of 2020, respectively. Persistence of this trend may weigh on the company's top line in the near future. Also, the foodservice unit, which is expected to recover in the near term, is yet to bear fruits.
  - **Higher SG&A Expenses:** Archer Daniels is grappling with rising costs. Any deleverage in SG&A (selling, general, and administrative) expenses has a direct bearing on the company's profitability. During the first quarter of 2021, SG&A expenses rose 12.8% to \$749 million. SG&A expenses rose 14.5%, 10% and 6% during the fourth, third and second quarter of 2020, respectively.
  - **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.
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## Last Earnings Report

### Archer Daniels' Q1 Earnings & Revenues Top Estimates

Archer Daniels posted impressive first-quarter 2021 results, wherein both top and bottom line advanced year over year. Despite the tough ongoing environment, it reported the sixth straight quarter of adjusted operating profit growth. Also, solid demand for majority of its products contributed to quarterly growth. Management expects strong momentum to continue as governments in several regions are easing restrictions with the acceleration of vaccine rollout. Apart from these, it is on track with its transformation strategy, which focuses on productivity and innovation.

| Quarter Ending   | 03/2021      |
|------------------|--------------|
| Report Date      | Apr 27, 2021 |
| Sales Surprise   | 12.60%       |
| EPS Surprise     | 39.00%       |
| Quarterly EPS    | 1.39         |
| Annual EPS (TTM) | 4.34         |

Encouragingly, the company is optimistic about 2021 and envisions another year of strong earnings growth. Moreover, it anticipates significant year-over-year growth across all segments in 2021.

### Q1 Highlights

Adjusted earnings of \$1.39 per share in the first quarter outpaced the Zacks Consensus Estimate of \$1.00. The figure also improved more than two folds compared with 64 cents in the year-ago quarter. On a reported basis, the company's earnings were \$1.22 per share, up 77% from the prior-year quarter's 69 cents.

Revenues advanced 26.2% year over year to \$18,893 million and surpassed the Zacks Consensus Estimate of \$16,779 million. Solid sales across majority of the segments contributed to the top line.

Segment-wise, revenues for the Nutrition and the Ag Services & Oilseeds segments improved 35.5% and 6.3% year over year to \$1,563 million and \$15,007 million, respectively. Meanwhile, the metric declined 4% to \$2,223 million for the Carbohydrate Solutions unit.

Gross profit increased 62.8% year over year to \$1,548 million, while gross margin expanded 180 basis points (bps) to 8.2% in the quarter under review. SG&A expenses rose 12.8% to \$749 million.

Moreover, Archer Daniels reported an adjusted segment operating profit of \$1,199 million in first-quarter 2021, up 86.5% from the year-ago quarter. On a GAAP basis, the company's segmental operating profits grew nearly 85% year over year to \$1,105 million.

### Segment Operating Profit Discussion

Adjusted operating profit at **Ag Services & Oilseeds** increased 84.1% year over year to \$777 million. Operating results gained from solid performance in North America, driven by robust demand in China. On the flip side, a slow-selling season for Brazilian farmers as compared to the first quarter of 2020 along with dismal margins and rising freight costs led to the sluggishness in South America. Also, unfavorable timing acted as a deterrent.

Moreover, strong margins in soybean and softseed crushing on the back of healthy demand for vegetable oil and tight soybean stocks contributed positively to the crushing business. Operating results for Refined Products and Other improved year over year, driven by solid margins in North America and EMEAI refined oils.

The **Carbohydrate Solutions** segment's adjusted operating profit surged 281% to \$259 million. Starches and sweeteners gained from better pricing in ethanol, solid performance in corn oil as well as favorable co-product values. Moreover, Vantage Corn Processors performed well year over year on higher demand for USP-grade alcohol and sturdy margins on the distribution of fuel ethanol.

In the **Nutrition** segment, adjusted operating profit of \$154 million grew 8.5% from \$142 million in the year-ago quarter owing to significant gains in the Human Nutrition unit. The Human Nutrition division gained from higher sales across various segments, particularly beverages. Also, positive product mix in North America and strong margins in EMEAI regions were upsides. Further, Health and Wellness performed well year over year, driven by demand for probiotics and fibers. Meanwhile, the Animal Nutrition unit remained drab due to sluggish demand and rising input costs stemming from COVID-19 impacts, particularly in South America. This was somewhat offset by improved performance in amino acids and a positive product mix.

### Other Financials

Archer Daniels ended the quarter with cash and cash equivalents of \$694 million, long-term debt, including current maturities, of \$8,437 million and shareholders' equity of \$20,861 million.

In the quarter ending Mar 31, 2021, the company provided \$298 million in cash for operating activities. Additionally, it paid out dividends of \$208 million in the said period.

## Recent News

### Archer Daniels to Build Crushing Facility to Meet Demand - May 11, 2021

Archer Daniels revealed plans to build a crushing facility in Spiritwood, ND, in a bid to meet the growing demand for renewable products. This will be the first-ever soybean crushing plant and refinery in the North Dakota state and will satisfy the needs of food, feed, industrial and biofuel customers, as well as producers of renewable diesel.

Further, the \$350-million facility will come with state-of-the-art automation technology and the capacity to process 150,000 bushels of soybeans per day. The construction of this facility is likely to be concluded by the 2023 harvest season. With the help of Archer Daniel's global logistics network, this facility will be able to gain access to both domestic and global markets for soybean oil and meal. Apart from renewable diesel production, this project is expected to be accretive to farmers as it will expand the market for soybean.

In another development, the company announced the expansion of refining and storage capacity of its existing facility in Quincy, IL. In doing so, it will invest \$25 million. This move, which is projected to be completed by the first quarter of 2022, will help fully align the facility's refining capabilities with its crush capacity.

### Archer Daniels Approves Dividend – May 5, 2021

Archer Daniels approved its quarterly dividend of 36 cents to be payable on Jun 9, 2021 to its shareholders of record as of May 19.

## Valuation

Archer Daniels shares are up 26.9% in the year-to-date period and 57.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 20.6% and 6.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 53% and 20.2%, respectively.

The S&P 500 index is up 13.2% over the year-to-date period and 37.7% in the past year.

The stock is currently trading at 14.42X forward 12-month earnings, which compares to 16.26X for the Zacks sub-industry, 20.59X for the Zacks sector and 21.71X 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 14.47X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$74 price target reflects 16.68X 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       | 14.42 | 16.26        | 20.59  | 21.71   |
|                           | 5-Year High   | 20.25 | 17.58        | 22.4   | 23.83   |
|                           | 5-Year Low    | 8.81  | 10.5         | 16.52  | 15.31   |
|                           | 5-Year Median | 14.47 | 14.53        | 19.51  | 18.05   |
| P/S F12M                  | Current       | 0.48  | 0.66         | 10.31  | 4.7     |
|                           | 5-Year High   | 0.52  | 0.66         | 11.95  | 4.74    |
|                           | 5-Year Low    | 0.24  | 0.21         | 8.58   | 3.21    |
|                           | 5-Year Median | 0.38  | 0.44         | 10.32  | 3.72    |
| EV/EBITDA TTM             | Current       | 10.26 | 9.8          | 42.28  | 17.34   |
|                           | 5-Year High   | 14.28 | 10.64        | 45.75  | 17.74   |
|                           | 5-Year Low    | 5.93  | 4.27         | 27.43  | 9.63    |
|                           | 5-Year Median | 9.47  | 7.67         | 39.28  | 13.47   |

As of 06/16/2021

Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 252)



## Top Peers

| Company (Ticker)                  | Rec          | Rank |
|-----------------------------------|--------------|------|
| Bunge Limited (BG)                | Outperform   | 2    |
| Adecoagro S.A. (AGRO)             | Neutral      | 3    |
| B&G Foods, Inc. (BGS)             | Neutral      | 3    |
| Corteva, Inc. (CTVA)              | Neutral      | 3    |
| Calavo Growers, Inc. (CVGW)       | Neutral      | 3    |
| Limoneira Co (LMNR)               | Neutral      | 3    |
| United Natural Foods, Inc. (UNFI) | Neutral      | 3    |
| Metabolix, Inc. (YTEN)            | Underperform | 4    |

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)                       | Outperform | -          | -         | Neutral        | Neutral | Neutral  |
| Zacks Rank (Short Term)                                | 2          | -          | -         | 3              | 3       | 3        |
| VGM Score                                              | B          | -          | -         | A              | D       | C        |
| Market Cap                                             | 35.75 B    | 328.06 M   | 29.96 B   | 1.31 B         | 1.14 B  | 328.06 M |
| # of Analysts                                          | 6          | 2          | 12        | 3              | 3       | 4        |
| Dividend Yield                                         | 2.31%      | 0.00%      | 1.3%      | 0.00%          | 1.78%   | 1.62%    |
| Value Score                                            | C          | -          | -         | A              | B       | D        |
| Cash/Price                                             | 0.19       | 0.08       | 0.05      | 0.15           | 0.00    | 0.00     |
| EV/EBITDA                                              | 11.60      | 3.22       | 17.13     | 4.62           | 239.73  | -32.57   |
| PEG F1                                                 | 2.85       | 2.09       | 2.12      | NA             | NA      | 18.32    |
| P/B                                                    | 1.71       | 1.54       | 4.17      | 1.37           | 4.21    | 1.70     |
| P/CF                                                   | 11.88      | 10.22      | 17.46     | 4.19           | 26.16   | NA       |
| P/E F1                                                 | 14.13      | 28.08      | 21.27     | 14.46          | 32.72   | 274.82   |
| P/S TTM                                                | 0.52       | 1.94       | 3.46      | 1.59           | 1.14    | 1.97     |
| Earnings Yield                                         | 7.08%      | 0.88%      | 4.62%     | 6.95%          | 3.06%   | 0.38%    |
| Debt/Equity                                            | 0.40       | 0.25       | 0.66      | 0.82           | 0.18    | 0.66     |
| Cash Flow (\$/share)                                   | 5.39       | 0.08       | 6.83      | 2.68           | 2.47    | -0.12    |
| Growth Score                                           | B          | -          | -         | B              | C       | B        |
| Historical EPS Growth (3-5 Years)                      | 14.92%     | 13.11%     | 9.44%     | 114.74%        | -4.59%  | 17.54%   |
| Projected EPS Growth (F1/F0)                           | 26.09%     | 32.20%     | 21.49%    | -30.65%        | 25.90%  | 109.78%  |
| Current Cash Flow Growth                               | 6.09%      | -21.86%    | 0.86%     | 20.73%         | -34.61% | -364.63% |
| Historical Cash Flow Growth (3-5 Years)                | 3.72%      | 3.72%      | 7.28%     | 20.89%         | 3.98%   | NA       |
| Current Ratio                                          | 1.58       | 1.67       | 1.39      | 2.22           | 1.78    | 1.31     |
| Debt/Capital                                           | 29.00%     | 24.39%     | 41.51%    | 45.09%         | 14.98%  | 38.60%   |
| Net Margin                                             | 3.03%      | -3.73%     | 11.95%    | 8.90%          | 0.47%   | -4.44%   |
| Return on Equity                                       | 12.28%     | -1.58%     | 16.48%    | 15.35%         | 11.17%  | -3.90%   |
| Sales/Assets                                           | 1.43       | 0.46       | 0.51      | 0.35           | 2.24    | 0.42     |
| Projected Sales Growth (F1/F0)                         | 13.13%     | 0.71%      | 9.41%     | 29.31%         | -0.03%  | 7.72%    |
| Momentum Score                                         | A          | -          | -         | A              | F       | D        |
| Daily Price Change                                     | -1.01%     | -0.38%     | -0.54%    | 0.72%          | -1.61%  | -2.52%   |
| 1-Week Price Change                                    | -4.03%     | 0.00%      | 0.10%     | 3.07%          | -6.12%  | -2.06%   |
| 4-Week Price Change                                    | -3.67%     | 0.00%      | 2.62%     | 5.94%          | -12.13% | 0.49%    |
| 12-Week Price Change                                   | 14.43%     | 6.00%      | 8.60%     | 38.30%         | -13.77% | 13.18%   |
| 52-Week Price Change                                   | 58.12%     | 29.46%     | 35.66%    | 142.55%        | 6.58%   | 37.10%   |
| 20-Day Average Volume (Shares)                         | 2,384,996  | 52,954     | 1,734,994 | 1,874,764      | 152,460 | 35,969   |
| EPS F1 Estimate 1-Week Change                          | 0.26%      | 0.00%      | 0.00%     | 0.00%          | 0.00%   | -10.00%  |
| EPS F1 Estimate 4-Week Change                          | 2.15%      | 0.00%      | 0.05%     | 0.00%          | -7.20%  | -3.57%   |
| EPS F1 Estimate 12-Week Change                         | 17.22%     | 4.35%      | 3.39%     | 237.68%        | -16.83% | 0.00%    |

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.



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|                                   |       |   |       |       |   |    |         |       |
|-----------------------------------|-------|---|-------|-------|---|----|---------|-------|
| EPS Q1 Estimate Monthly Change    | 1.27% | : | 0.00% | 0.00% | : | NA | -34.41% | 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.

### 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    | C |
| Growth Score   | B |
| Momentum Score | A |
| VGM Score      | 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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## 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

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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-

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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.

**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



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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.