

Apartment Investment (AIV)

\$36.50 (As of 10/05/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Apartment Investment and Management Company, commonly known as Aimco, plans a spin-off, in a bid to separate its business in two publicly traded companies that will be focused on ownership with active management and development, respectively. Moreover, the company will likely to retain its development and redevelopment businesses, and a portfolio of \$1.3-billion assets. Additionally, in a bid to reduce leverage and exposure in California, it entered a \$2.4-billion joint venture (JV). Notably, a diversified portfolio, favorable demographic factors and a strong balance sheet bode well for long-term growth. However, amid the pandemic and adverse impacts on the economy and jobs, the rent-paying capability of tenants will likely be impaired, affecting rental rates and occupancy. Moreover, its shares have underperformed the industry in the past year.

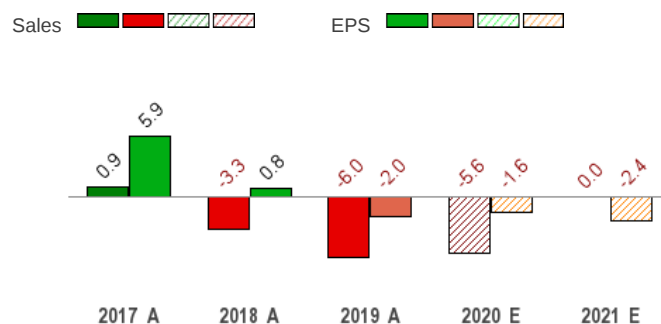
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$55.68 - \$24.53
20-Day Average Volume (Shares)	1,711,398
Market Cap	\$5.4 B
Year-To-Date Price Change	-29.3%
Beta	0.79
Dividend / Dividend Yield	\$1.64 / 4.5%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Bottom 31% (175 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-0.5%
EPS F1 Estimate 4-Week Change	-1.4%
Expected Report Date	10/29/2020
Earnings ESP	-0.9%
P/E TTM	14.1
P/E F1	14.8
PEG F1	2.8
P/S TTM	6.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	205 E	207 E	208 E	209 E	863 E
2020	225 A	219 A	213 E	212 E	863 E
2019	230 A	224 A	230 A	230 A	914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.60 E	\$0.61 E	\$0.63 E	\$2.40 E
2020	\$0.67 A	\$0.63 A	\$0.59 E	\$0.58 E	\$2.46 E
2019	\$0.61 A	\$0.60 A	\$0.64 A	\$0.65 A	\$2.50 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 10/05/2020. The reports text is as of 10/06/2020.

Overview

Headquartered in Denver, CO, Apartment Investment and Management Company – commonly known as Aimco – is a real estate investment trust (REIT) that is engaged in the acquisition, ownership, management and redevelopment of apartment properties situated in some of the largest markets in the United States.

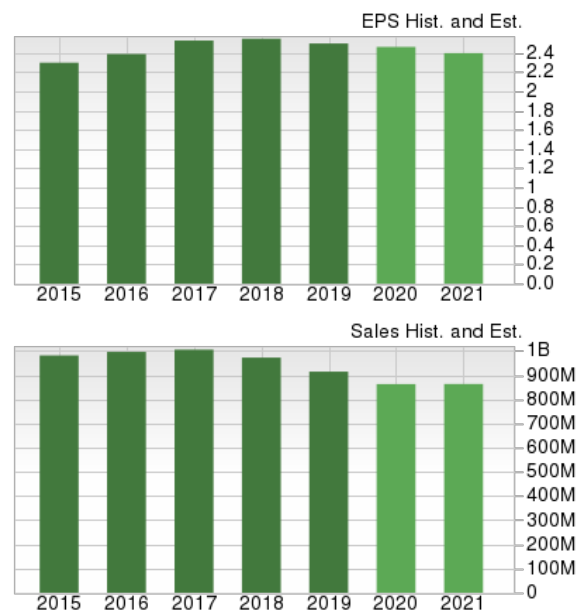
Aimco's portfolio of apartment communities is diversified by both geography and price point. As of Jun 30, 2020, the company's portfolio comprised ownership interest in 125 apartment communities, with 32,938 apartment homes in 17 states and the District of Columbia.

In 2019, the company revised its segmental information as a result of the 2018 sale of the Asset Management business. The company reports in following three segments: Same Store, Redevelopment and Development, Acquisition and Other Real Estate.

Notably, in November 2019, Aimco announced a \$275-million mezzanine loan to the partnership which owns Parkmerced Apartments. Accruing interest at 10% per annum, the loan has a five-year term. Also, there is the right of the partnership to extend for a second five-year term. Moreover, it is secured by a pledge of the ownership of the partnership. This loan will offer current income to Aimco. During the six months ended Jun 30, 2020, the company recognized \$13.7 million of income related to the mezzanine loan.

On Sep 14, 2020, Aimco announced plans to bifurcate its business into two separate publicly traded companies focused on ownership with active management and development, respectively. As part of the spin-off, Aimco will separate its business into two publicly traded companies — Apartment Income REIT ("AIR"), which will be a pure-play apartment investment vehicle, while Aimco will retain the development and redevelopment of apartment communities. The spin-off is expected to be effective in mid December 2020.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Aimco has a sturdy portfolio diversified both in terms of geography and price point, and situated in 12 of the largest markets in the United States. In fact, the company's portfolio of apartment communities is diversified across "A," "B," and "C+" price points. This helps in mitigating its risks to economic downturns and also provides growth opportunities. It aims to adjust the current 50:50 balance between "A" and "B/C+" properties to a greater allocation of "B" properties that offer scope for above-average value creation. Moreover, resilience in the company's operating platform amid the economic turbulence enabled it to collect 97.2% and 95.8% of its total second-quarter and July residential rents, respectively.
- ▲ The rise in demand for apartment properties driven by 'echo boomers' – children of the baby boomer generation – keeps us positive on the stock. This age cohort, which mainly consists of people less than 35 years of age, prefers to stay on their own. Added to this, due to changing lifestyle, people, on an average, are settling later in life and thereby delaying home purchase, leading to a rising tendency of living in a rented home. Further, as renting is the only viable option for customers who cannot avail mortgage loans or are unwilling to buy a house at present, demand for Aimco's rental properties are expected to rise in the coming quarters.
- ▲ Aimco is revamping its portfolio through property sales and reinvesting the proceeds in select apartment homes with projected free cash flow internal rates of return higher than expected from the communities being sold. Moreover, the company is reinvesting the proceeds in measures like capital enhancements, redevelopments and occasional developments. Through the moves, Aimco increased its average revenues per apartment home by 2% (year over year) to \$2,254. The company's percentage of A, B and C+ home was 53%, 29% and 18%, respectively, in second-quarter 2020. Also, during the second quarter, Aimco invested \$62 million in redevelopment and development activities. In July 2018, the company also completed its exit from the affordable housing line of business. Such efforts are expected to help the company enhance its overall portfolio quality and achieve a favorable mix for long-term growth.
- ▲ Aimco has been well on track to enhance its balance sheet and liquidity position, and bring down leverage. The company believes that completed redevelopments will contribute to earnings growth by increasing EBITDA and thereby, reduce leverage ratios. Moreover, it recently announced a \$2.4-billion JV for the ownership of 12 multi-family properties. This reduced leverage by 1.2X. As of Jun 30, 2020, Aimco's total liquidity of \$1.2 billion consisted of cash and restricted cash of \$428 million as well as a borrowing capacity of \$793 million under its revolving credit facility. It also eliminated any loan maturities for the ongoing year. Hence, using nonrecourse, property level financing provides the company with ample financial flexibility and sufficient funds to meet its near-term capital needs. Moreover, it maintains an investment grade rating of BBB-, with stable outlook from both Standard and Poor's as well as Fitch Ratings.

Aimco's portfolio diversity in terms of geography and price point, revamp efforts through sales and reinvestments in attractive assets, decent liquidity, and favorable demographics are positives.

Reasons To Sell:

- ▼ Apartment deliveries are expected to remain elevated in a number of the company's markets in the near term. In fact, the company expects competitive new supply to be high primarily to "A" price point communities in certain submarkets. This high supply is a concern because it curtails landlords' ability to command more rent and result in lesser absorption. Such an environment is predicted to continue in the near term, and result in aggressive rental concessions and moderate pricing power of landlords.
- ▼ The coronavirus pandemic, which has been wreaking havoc and resulting in macroeconomic uncertainties and job-market adversities, is expected to continue affecting the demand for residential units and rent-paying capability of tenants. As such, Aimco's top line is likely to bear the brunt in the near term, with adverse impacts on rental rates and occupancy. In fact, due to several restrictions and shelter-in-place orders in the company's markets, it witnessed significant declines in leasing activities in late March. Although the company executed leases in the second quarter, it has a year-to-date shortfall of 675 deals. Moreover, management noted that it is at or near the bottom in monthly average daily occupancy. Additionally, Aimco witnessed a year-over-year decline in renewal and new lease rents. The company expects new leasing to be very competitive.
- ▼ In line with its portfolio strategy, the company aims to sell up to 10% of its total apartment communities in its portfolio annually. In 2019, the company sold 12 apartment communities. Further, this May, Aimco disposed of Ravensworth Apartments for \$58.9 million. Although Aimco's efforts to sell non-core assets with lower average revenues per apartment home are a strategic fit for the long term, the dilutive impact on earnings from such asset dispositions cannot be avoided in the near term.
- ▼ Aimco engages in long-cycle redevelopments that require investment in larger building systems. Currently, the company has five projects in long-cycle redevelopments, with an estimated cost of completion of \$151 million. In June, Aimco resumed short-cycle redevelopment at two sites. Although such projects are likely to improve NOI and have higher value creation, it increases Aimco's operational risks by exposing it to lease-up risks. In fact, at Jun 30, Aimco's exposure to lease-up at long-cycle redevelopment and development communities was 809 apartment homes. Further, due to the longer cycle time, the projects usually take time to generate revenues and result in current-period earnings dilution.
- ▼ Over the past year, shares of Aimco have lost 31.6% compared with the industry's decline of 24.4%. Moreover, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as estimates have been revised 1.3% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has a limited upside potential.

Adverse impacts of the coronavirus outbreak will likely dent rental rates and occupancy for Aimco's properties. Higher competitive supply and earnings dilution from divestiture add to its woes.

Last Earnings Report

Aimco's Q2 FFO Surpasses, Revenues Miss Estimates

Aimco reported second-quarter 2020 pro-forma FFO of 63 cents per share, surpassing the Zacks Consensus Estimate of 61 cents. Also, the figure improved 5% from the year-ago quarter's 60 cents.

Quarterly results reflected higher residential rent and substantial rent collections. However, declining occupancy and same-store revenues remain headwinds.

Notably, rental and other property revenues of \$218.8 million in the reported quarter missed the Zacks Consensus Estimate of \$219.8 million. Further, the revenue figure comes in 2.4% lower than the prior-year quarter's \$224.2 million.

As of Jul 31, the company collected 97.2% of its total second-quarter residential rents. Moreover, as of the same date, residential rent collection for July totaled 95.8%.

Quarter in Detail

Same-store revenues (before utility reimbursements) slid 1.1% year over year to \$180.8 million, while expenses (net of utility reimbursements) edged down 0.4% to \$48.7 million. Consequently, same-store NOI declined 1.4% year over year to \$132.1 million.

Same-store average daily occupancy declined 140 basis points (bps) year over year to 95.5%. Rental rates on new leases decreased 4.7%, whereas renewal rental rates dropped 0.1% year over year.

Portfolio Activity

Aimco invested \$62 million in five redevelopment and development activities during the June-end quarter. These five apartment communities under development or redevelopment have an estimated remaining cost of completion of around \$151 million. Aimco also leased 59 redeveloped or newly-developed apartment homes.

In addition, it is revamping its portfolio through property sales, and reinvesting the proceeds in select apartment homes with higher rents, superior margins and higher-than-anticipated growth.

Through the moves, Aimco increased its average revenues per apartment home by 2% year over year to \$2,254. However, NOI margin declined to 71% from the year-ago quarter's 72%. The company's percentage of A, B and C+ home was 53%, 29% and 18%, respectively, in second-quarter 2020.

During the reported quarter, the company sold an apartment community located in Annandale, VA, for \$59 million. Net proceeds from the sale were \$37 million.

Liquidity

As of Jun 30, 2020, Aimco's total liquidity of \$1.2 billion consisted of cash and restricted cash of \$428 million, as well as a borrowing capacity of \$793 million under its revolving credit facility.

Further, the company made efforts to increase available credit by placing \$609 million of new property loans (generating incremental proceeds of \$371 million). In addition, it closed the refinancing of another \$80 million in July. With this, Aimco has now eliminated loan maturities for 2020 and will have average annual maturities of \$262 million between 2021 and 2024.

In the June-end quarter, the company secured a \$350-million bank term loan and used proceeds to repay amounts outstanding on its revolving credit facility.

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	-0.45%
EPS Surprise	3.28%
Quarterly EPS	0.63
Annual EPS (TTM)	2.59

Recent News

Aimco Announces Spin-Off, \$2.4B Joint Venture – Sep 14, 2020

Aimco announced plans to bifurcate its business into two separate publicly traded companies focused on ownership with active management and development, respectively. The company also entered a ten-year JV for joint ownership of 12 multi-family properties in California.

Spin-Off Transaction Details

As part of the spin-off, Aimco will separate its business into two publicly traded companies — Apartment Income REIT (“AIR”), which will be a pure-play apartment investment vehicle, while Aimco will retain the development and redevelopment of apartment communities.

AIR will own 93.5% of a portfolio of 98 stabilized properties that have 26,599 apartment homes, with fair market value (or GAV) of \$10.4 billion and net asset value (NAV) of \$7.8 billion. These communities are primarily A/B in quality and provide diversification across geography and price points.

The strategic location of the properties across submarkets with above-average growth projections likely enabled the assets to enjoy above-average market rents as well as decent NOI margins and occupancy rates.

AIR will operate at low leverage and a conservative capital structure. It will have debt, net of cash and receivables of \$2.7 billion, indicating net debt to annualized EBITDA of 5.9X for the March-end quarter.

Meanwhile, Aimco will retain the ownership of 11 stabilized multi-family properties, the loan made to the partnership owning Parkmerced Apartments and the related option to extend the same, the land assembly of Yacht Club, and an office building in Miami, 1001 Brickell Bay Tower.

Moreover, the company's portfolio will include Hamilton on the Bay, a multi-family property that was recently purchased, and the land and zoning to develop 389 additional apartment homes, as well as other assets and liabilities. Aimco expects the fair market value or GAV of these properties to be \$1.3 billion. The properties are subject to property debt of \$0.2 billion. This along with \$0.1 billion of cash is likely to result in an expected NAV of \$1.2 billion.

The 1:1 split will enable Aimco shareholders to receive a share of AIR for each owned share of Aimco. Moreover, the planned transaction is expected to be a taxable event, enabling the reduction of the tax burden for future taxable transactions and the need for continued non-cash stock dividends in compliance with REIT requirements.

Additionally, AIR will be headquartered in Denver, CO, while Aimco will be based in Bethesda, MD, as well as Denver.

Transaction Rationale

The spin-off will facilitate Aimco to simplify its business, and focus on a pipeline of redevelopment and development opportunities as well as additional scope to pursue real estate opportunities in partnership with AIR.

In fact, five of AIR's properties are currently under construction or in lease-up and will likely be so at the time of the separation. Per plans, the five properties will be leased to Aimco to complete the work. The net leases are estimated to contribute \$25 million annually or around 5% of AIR's NOI.

Moreover, since AIR will not be involved in development and redevelopment activities, it can eliminate earnings dilution from properties with reduced or no earnings from such activities. This along with lower management costs is likely to result in higher FFO. Higher FFO also supports increased levels of dividends.

JV Transaction Details

Aimco entered a ten-year JV with a passive institutional investor for 12 multi-family properties, consisting of 4,051 units in California.

These properties are valued at \$2.4 billion, indicating an implied NOI cap rate and free cash flow cap rate of approximately 4.2% and 4%, respectively (based on annualized figures for the six months ended Jun 30, 2020). The properties have an implied equity value of \$1.18 billion and non-recourse debt of \$1.22 billion.

The company has sold a 39% stake in the properties, subject to \$475 million of property debt, for \$461 million cash and an additional \$24 million for future redevelopment spending. Along with the remaining 61% interest, Aimco will be responsible for the operations of the properties, enabling it to earn property and asset management fees.

The transaction is a strategic fit as it allows the company to reduce financial leverage by 1.2X. Moreover, it aids in reducing capital allocation to California, while providing proceeds to invest in other target markets, thereby, demonstrating its plan to rebalance capital allocation across its markets.

Markedly, the properties are anticipated to be owned by AIR post separation.

Dividend Update

On Jul 28, the company announced a quarterly cash dividend of 41 cents per common share, sequentially flat and up 5% year over year. The

dividend was paid out on Aug 28 to shareholders of record as of Aug 14, 2020.

Valuation

Aimco's shares have been down 31.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 24.4% and 9.6% in the past year, respectively.

The S&P 500 Index is up 14.2% in the past year.

The stock is currently trading at 15.11X forward 12-month FFO, which compares with the 17.76X for the Zacks sub-industry, 15.95X for the Zacks sector and 21.89X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.32X and as low as 9.39X, with a 5-year median of 17.55X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$39 price target reflects 16.14X FFO.

The table below shows summary valuation data for AIV.

Valuation Multiples - AIV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.11	17.76	15.95	21.89
	5-Year High	21.32	22.36	16.73	23.47
	5-Year Low	9.39	15.54	11.60	15.27
	5-Year Median	17.55	18.47	14.42	17.70
P/S F12M	Current	6.29	9.28	6.15	4.02
	5-Year High	8.99	12.16	6.67	4.30
	5-Year Low	4.10	8.09	4.97	3.18
	5-Year Median	6.91	9.28	6.07	3.67
P/B TTM	Current	3.06	2.38	2.49	5.81
	5-Year High	5.42	3.30	2.91	6.20
	5-Year Low	2.02	1.82	1.72	3.75
	5-Year Median	4.04	2.43	2.54	4.88

As of 10/05/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
NexPoint Residential Trust, Inc. (NXRT)	Outperform	1
AvalonBay Communities, Inc. (AVB)	Neutral	3
Camden Property Trust (CPT)	Neutral	3
Equity Residential (EQR)	Neutral	3
Essex Property Trust, Inc. (ESS)	Neutral	4
Investors Real Estate Trust (IRET)	Neutral	3
MidAmerica Apartment Communities, Inc. (MAA)	Neutral	3
United Dominion Realty Trust, Inc. (UDR)	Neutral	4

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

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	AIV	X Industry	S&P 500	AVB	EQR	UDR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	F	F	D
Market Cap	5.43 B	1.23 B	23.68 B	22.58 B	20.69 B	10.36 B
# of Analysts	7	4.5	14	7	11	10
Dividend Yield	4.49%	3.96%	1.64%	3.96%	4.33%	4.10%
Value Score	C	-	-	D	D	D
Cash/Price	0.08	0.06	0.07	0.02	0.01	0.06
EV/EBITDA	9.31	16.93	13.45	19.93	13.00	16.49
PEG F1	2.81	4.24	2.88	15.47	4.56	4.24
P/B	3.06	1.87	3.39	2.08	1.92	3.07
P/CF	6.31	14.66	13.14	15.12	11.11	14.85
P/E F1	14.89	16.60	21.79	17.79	16.64	17.05
P/S TTM	6.02	5.80	2.55	9.57	7.65	8.43
Earnings Yield	6.74%	6.02%	4.42%	5.62%	6.01%	5.87%
Debt/Equity	2.76	0.99	0.70	0.70	0.78	1.41
Cash Flow (\$/share)	5.79	2.46	6.92	10.61	5.00	2.36
Growth Score	C	-	-	D	D	C
Historical EPS Growth (3-5 Years)	2.48%	2.54%	10.45%	3.84%	1.29%	5.46%
Projected EPS Growth (F1/F0)	-1.43%	-2.00%	-2.97%	-3.43%	-4.25%	-1.01%
Current Cash Flow Growth	-18.15%	7.20%	5.47%	-9.39%	23.84%	8.47%
Historical Cash Flow Growth (3-5 Years)	18.87%	15.38%	8.50%	6.67%	5.74%	5.98%
Current Ratio	1.25	1.42	1.35	1.40	1.06	4.08
Debt/Capital	73.78%	47.18%	42.90%	41.25%	44.70%	62.12%
Net Margin	20.09%	13.64%	10.28%	33.32%	41.64%	15.31%
Return on Equity	10.05%	4.71%	14.79%	7.21%	10.62%	5.63%
Sales/Assets	0.13	0.12	0.51	0.12	0.13	0.13
Projected Sales Growth (F1/F0)	-5.60%	1.72%	-0.79%	5.36%	-3.41%	8.23%
Momentum Score	F	-	-	F	F	D
Daily Price Change	0.69%	0.07%	1.71%	1.58%	0.93%	1.07%
1-Week Price Change	6.96%	6.15%	2.13%	6.69%	6.83%	7.19%
4-Week Price Change	-2.54%	-2.54%	0.26%	-1.03%	-4.32%	-0.57%
12-Week Price Change	-2.14%	5.45%	8.70%	5.45%	-2.49%	-2.90%
52-Week Price Change	-31.62%	-26.31%	4.20%	-26.81%	-36.65%	-28.38%
20-Day Average Volume (Shares)	1,711,398	622,010	2,164,008	1,249,601	3,427,844	2,318,819
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.27%	0.00%
EPS F1 Estimate 4-Week Change	-1.43%	0.00%	0.00%	-0.32%	-0.49%	-0.53%
EPS F1 Estimate 12-Week Change	-1.82%	0.59%	3.80%	0.11%	-0.16%	-1.25%
EPS Q1 Estimate Monthly Change	-0.46%	0.00%	0.00%	-1.06%	-0.55%	-0.74%

Source: Zacks Investment Research

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	C
Momentum Score	F
VGM Score	D

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.

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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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 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.

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.

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 a 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.

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.