

## Assurant Inc.(AIZ)

**\$138.59** (As of 11/17/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 11/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

### Summary

Assurant's Global Housing is persistently weighed on by lower mortgage originations as well as the ongoing lender-placed insurance normalization. Exposure to cat loss induces earnings volatility. Also, escalating expenses due to higher administrative expenses tend to weigh on margins. Nevertheless, its shares have outperformed the industry in the past year. The company's focus on Specialty Property and Casualty and Lifestyle Protection bodes well for growth. Strong franchise, consistent cash flow generation, robust solutions segment poise it well for growth. It plans to deploy capital, mainly to fund business growth, finance other investments and return capital to shareholders via share buybacks and dividends. For 2020, it expects earnings per share, excluding cat loss, to grow 12% to 16%. Earnings beat the Zacks Consensus Estimate by 50%.

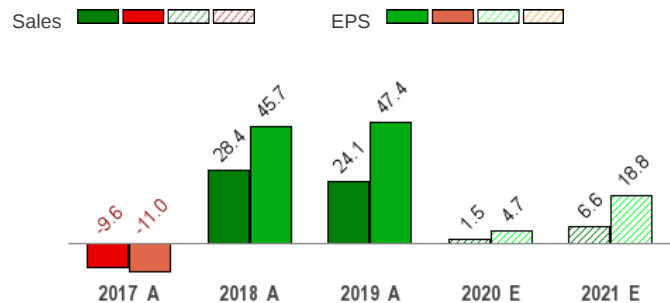
### Price, Consensus & Surprise



### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$142.61 - \$76.27          |
| 20-Day Average Volume (Shares) | 448,159                     |
| Market Cap                     | \$8.1 B                     |
| Year-To-Date Price Change      | 5.7%                        |
| Beta                           | 0.64                        |
| Dividend / Dividend Yield      | \$2.64 / 1.8%               |
| Industry                       | Insurance - Multi line      |
| Zacks Industry Rank            | Bottom 48% (131 out of 254) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 50.0%      |
| Last Sales Surprise           | 2.1%       |
| EPS F1 Estimate 4-Week Change | 3.5%       |
| Expected Report Date          | 02/09/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 15.3       |
| P/E F1                        | 15.5       |
| PEG F1                        | NA         |
| P/S TTM                       | 0.8        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 2,644 E | 2,590 E | 2,640 E | 2,722 E | 10,828 E |
| 2020 | 2,657 A | 2,445 A | 2,484 A | 2,550 E | 10,160 E |
| 2019 | 2,399 A | 2,523 A | 2,480 A | 2,604 A | 10,006 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | \$2.78 E | \$2.72 E | \$2.35 E | \$2.79 E | \$10.63 E |
| 2020 | \$2.64 A | \$2.75 A | \$1.41 A | \$2.16 E | \$8.95 E  |
| 2019 | \$2.21 A | \$2.34 A | \$1.69 A | \$2.25 A | \$8.55 A  |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/17/2020. The reports text is as of 11/18/2020.

## Overview

Founded in 1969 and headquartered in New York, Assurant Inc. is a global provider of risk management solutions in the housing and lifestyle markets, protecting where people live and the goods they buy. The company operates in North America, Latin America, Europe and Asia Pacific. Assurant was incorporated as a Delaware corporation in 2004. The company reports through three reportable segments: **Global Lifestyle, Global Housing and Global Preneed**.

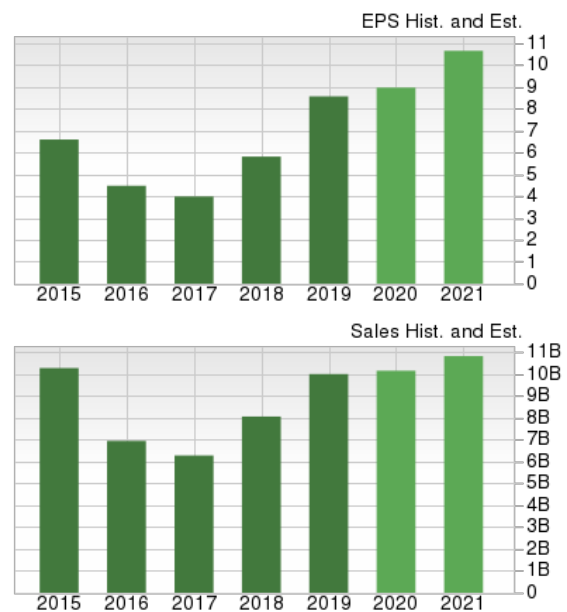
**Global Lifestyle segment (58% of 2019 operating earnings)** provides mobile device protection products and related services and extended service products and related services for consumer electronics and appliances (referred to as Connected Living); vehicle protection and related services (referred to as Global Automotive); and credit and other insurance products (referred to as Global Financial Services).

Global Lifestyle operates globally, with about 75% of its revenues from North America, 11% from Latin America, 10% from Europe and 4% from Asia Pacific in 2018.

**Global Housing segment (36%)** provides lender-placed homeowners insurance, lender-placed manufactured housing insurance, lender-placed flood insurance; and renters insurance and related products (referred to as Multifamily Housing), as well as voluntary manufactured housing and other insurance.

On Aug 1, 2018, Assurant sold its Mortgage Solutions business, which comprised property inspection and preservation, valuation and title services and other property risk management services.

**Global Preneed segment (6%)** provides pre-funded funeral insurance and annuity products in Canada and the United States. Pre-funded funeral insurance provides whole life insurance or annuity death benefits to fund the costs associated with pre-arranged funerals, which are planned and paid for in advance of death. The pre-funded funeral insurance products are typically structured as whole life insurance policies in the United States and offer limited pay (Preneed) or pay for life (Final Need) options. In Canada, pre-funded funeral insurance products are typically structured as limited pay annuity contracts. Product choices are based on the health and financial situation of the customer and the distribution channel.



Source: Zacks Investment Research

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## Reasons To Sell:

- ▼ Revenues at Global Housing have been declining since 2017, which continued through 2019. This decline has been mainly due to decreasing premiums from Lender-placed insurance. In the first nine months of 2020 too, revenues declined 3.2% to \$1.5 billion. With respect to the lender-placed market, placement rates have decreased as the housing market has improved resulting in lower net earned premiums. Given narrower year-to-date loss experience in Global Housing, the company raised its 2020 guidance to 17% to 21% growth in net operating income per share, excluding catastrophe losses.
- ▼ Assurant has been experiencing an increase in policyholder benefits, underwriting, general and administrative expenses and interest expense. Underwriting, general and administrative expenses consist of commissions, premium taxes, licenses, fees, general operating expenses and income taxes. Expenses increased at a two-year (2017 -2019) CAGR of 26.4%. In the first nine months of 2020, total benefits, loss and expenses grew 1.4% year over year to \$7.2 billion due to an increase in selling, underwriting, general and administrative expenses and goodwill impairment. An increase in expenses weighs on the company's margins.
- ▼ The company has been witnessing increase in net investment income over the past few years. However, it decreased 12.6% year over year to \$428.3 million in the first nine months of 2020. The company expects lower investment income to remain a headwind in the second half of the year due to lower yields available in the current interest rate environment.

Global Housing is witnessing lower mortgage originations and drop in real estate owned volumes and declining placement rates, curbing growth. High debt, rising expenses are other headwinds.

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## Risks

- The company's Global Lifestyle segment has been putting up an impressive performance, reflected by its 'net premium and fee and other income' CAGR of 24.2% from 2016 to 2019. In the first nine months of 2020, net earned premiums, fees and others rose 5% year over year to \$5.5 billion. The company has adopted inorganic and organic growth strategies to boost this segment. The acquisition of The Warranty Group in May 2018 strengthened its position as an industry-leading lifestyle provider, having substantial operating synergies in a more predictable and expanded earnings stream. Buyout of American Financial & Automotive Services in April 2020 should help fortify market position and add scale. In the first nine months of 2020, net operating income of \$349.3 million improved 12% year over year, driven primarily by Connected Living. For 2020, the company expects growth in Lifestyle's net operating income. However, it estimates earnings in the second half of the year to be lower than the first half. Claims activity in Connected Living and auto normalizing at higher levels, adverse forex, and lower investment income, among others, are expected to weigh on earnings.
  - Pre-need is another important business for Assurant Solutions and remains a solid performer. The company remains focused on ramping up the Connected Living platform, deploying innovative products and services and adding new partnerships with leading brands like Comcast, Apple and KDDI in Japan. These initiatives are expected to double the margins in Connected Living to 8% over the long term. In the first nine months of 2020, net earned premiums, fees and others at Global Preneed rose 4% year over year to \$155.6 million, primarily driven by prior period sales of the Final Need product. The company expects Global Preneed's earnings to increase modestly in 2020 from 2019.
  - The company is also focused on growing the fee-based capital-light businesses that presently consist of 52% segmental revenues. Management estimates the contribution to continue growing in double digits over the longer term.
  - Assurant has a strong capital management policy in place. Traditionally, the company has been utilizing 50% of its free cash flow to repurchase shares. A solid capital position supports effective capital deployment. In November 2019, the board of directors also approved a dividend hike of 5%, reflecting a six-year (2014-2020) CAGR of 16.6%. Also, it has \$292 million remaining under its current share buyback authorization. The company expects to reach its target to return \$1.35 billion of capital to shareholders from 2019 to 2021.
  - Assurant's debt levels have remained relatively stable in the past few years. As of Sep 30, 2020, debt increased 0.08% to \$2 billion from the 2019-end level, with debt to capital ratio of 25.3% improving 90 basis points from the 2019 level. Also, long-term debt to capital of 26.9% compares favorably with the industry's measure of 27.7%. The company's cash and cash equivalents of \$2.2 billion as of Sep 30, 2020 are sufficient to meet its debt obligations. Further, times interest earned of 5.5 compares favorably with the industry's measure of 4.3.
  - Shares of the company has gained 4.8% in the past year, compared with the industry's decline of 9.8%. Strong fundamentals should continue to drive share price.
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## Last Earnings Report

### Assurant Q3 Earnings & Revenues Surpass Estimates

Assurant, Inc. reported third-quarter 2020 net operating income of \$1.41 per share, which outpaced the Zacks Consensus Estimate by 50%. However, the bottom line declined 16.6% from the year-ago quarter.

The earnings reflect persistent growth in mobile subscribers within Global Lifestyle and prior period sales of the Final Need product within Global Preneed, which was partially offset by run-off of small commercial business within Global Housing and softer investment income.

Total revenues increased 0.1% year over year to \$2.5 billion, primarily due to higher premiums. Moreover, the top line beat the Zacks Consensus Estimate by 2.1%.

Net investment income plunged 20.3% year over year to \$135.1 million. Nevertheless, total benefits, loss and expenses declined 0.6% to \$2.5 billion, mainly on account of a decline in policyholder benefits and selling, underwriting, general and administrative expenses and interest expense.

### Segmental Performance

Net earned premiums, fees and others at **Global Lifestyle** increased 3% year over year to \$1.8 billion. The uptick can primarily be attributed to prior period sales in Global Automotive as well as continued mobile subscriber growth. It was partially offset by lower mobile trade-in results and unfavorable foreign exchange.

Net operating income of \$106.6 million improved 4% year over year, driven primarily by Connected Living mainly due to mobile from continued subscriber growth in North America and Asia Pacific, as well as improved profitability from extended service contracts. It was partially offset by lower investment income and unfavorable foreign exchange, as well as lower volumes and unfavorable loss experience in Global Financial Services, including impacts from COVID-19.

Net earned premiums, fees and others at **Global Housing** declined 4% year over year to \$491.3 million. This was primarily due to the expected run-off of small commercial business and declines in lender-placed policies in-force from the previously disclosed financially insolvent client. The decrease was partially offset by continued growth in multifamily housing and specialty products. Net operating income of \$13.1 million declined 69% year over year as third-quarter results included \$87.0 million of reportable catastrophes, primarily due to Hurricane Laura.

Net earned premiums, fees and others at **Global Preneed** inched up 2% year over year to \$51.9 million, driven by prior period sales of the Final Need product. Net operating income increased 78% year over year to \$13.2 million.

Net operating loss at **Corporate & Other** was \$23.5 million, wider than the year-ago quarter's net operating loss of \$20.8 million on account of lower investment income attributable to a higher concentration of more liquid investable assets with lower yields compared to the prior-year period.

### Financial Position

Liquidity was \$235 million as of Sep 30, 2020, about \$132 million higher than the company's current targeted minimum level of \$225 million. Total assets declined 1.6% to \$43.6 billion as of Sep 30, 2020 from 2019 end. Total shareholders' equity came in at \$5.9 billion, up 5% from the level at 2019 end.

### Share Repurchase and Dividend Update

In the third quarter, the company bought back 0.57 million shares for \$70 million. From Oct 1 through Oct 30, 2020, the company repurchased an additional 0.3 million shares for approximately \$41 million. It now has \$292 million remaining under its current share buyback authorization.

The company's total dividends amounted to \$43 million in the reported quarter, including \$38 million in common stock dividends and \$5 million in preferred stock dividends.

### 2020 Guidance

For the full year, Assurant estimates net operating income per share, excluding catastrophe losses, to rise in the band of 17-21% from the figure reported in 2019 (\$9.21). The improvement can primarily be attributed to profitable growth and ongoing expense management across all business segments.

The company anticipates double-digit growth in net operating income, excluding catastrophes. The upside is likely to come on the back of earnings growth within Global Lifestyle and Global Housing.

For 2020, net operating loss in Corporate and Other is expected to be \$90 million, mainly due to reduced investment income primarily from lower yields partially offset by lower general expenses. Interest expense and preferred dividends are expected to be approximately \$81 million and \$19 million, respectively.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 02, 2020 |
| Sales Surprise   | 2.13%        |
| EPS Surprise     | 50.00%       |
| Quarterly EPS    | 1.41         |
| Annual EPS (TTM) | 9.05         |

## Recent News

### Assurant to Share More Profits, Ups Dividend by 5% - Nov 12, 2020

Assurant's board of directors recently approved a 5% hike in its quarterly dividend in a bid to enhance shareholder value. The company will now pay out a quarterly dividend of 66 cents per share compared with 63 cents paid out on Jul 9, 2020. The meatier dividend will be paid out on Dec 21, 2020 to shareholders of record as of Nov 30.

### Assurant Buys HYLA Mobile – Oct 28, 2020

Assurant is set to acquire a leading provider of smartphone software, trade-in and upgrade services, HYLA Mobile. Pending regulatory approvals, the deal is projected to close by the end of 2020.

The buyout will boost Assurant's trade-in and upgrade programs by doubling device processing volumes along with adding device diversity, talent, patented technology and capabilities. It will also provide a complementary client base, including the largest mobile carriers, retailers and OEMs in North America and Japan.

## Valuation

Assurant shares are up nearly 5.8% in the year-to-date period and 4.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 11.5% and 7.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.8% and 4.6%, respectively.

The S&P 500 index are up 12.5% in the year-to-date period and 16.3% in the past year..

The stock is currently trading at 1.37x trailing 12-month book value, which compares to 1.2x for the Zacks sub-industry, 2.92x for the Zacks sector and 6.13x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.52x and as low as 0.86x, with a 5-year median of 1.19x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$118 price target reflects 1.16x trailing 12-month book value.

The table below shows summary valuation data for AIZ

| Valuation Multiples -AIZ |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/B TTM                  | Current       | 1.37  | 1.2          | 2.92   | 6.13    |
|                          | 5-Year High   | 1.52  | 1.98         | 2.93   | 6.17    |
|                          | 5-Year Low    | 0.86  | 0.85         | 1.73   | 3.74    |
|                          | 5-Year Median | 1.19  | 1.48         | 2.57   | 4.90    |
| P/S F12M                 | Current       | 0.76  | 0.74         | 6.12   | 4.23    |
|                          | 5-Year High   | 0.89  | 1.74         | 6.72   | 4.3     |
|                          | 5-Year Low    | 0.45  | 0.74         | 5.01   | 3.17    |
|                          | 5-Year Median | 0.73  | 1.25         | 6.1    | 3.67    |
| P/E F12M                 | Current       | 13.29 | 9.28         | 17.43  | 22.69   |
|                          | 5-Year High   | 27.23 | 12.61        | 17.43  | 23.47   |
|                          | 5-Year Low    | 8.28  | 6.62         | 11.6   | 15.27   |
|                          | 5-Year Median | 12.76 | 9.79         | 14.45  | 17.72   |

As of 11/17/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 48% (131 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                             | Rec          | Rank |
|----------------------------------------------|--------------|------|
| Old Republic International Corporation (ORI) | Outperform   | 2    |
| American Financial Group, Inc. (AFG)         | Neutral      | 2    |
| Ageas SA (AGESY)                             | Neutral      | 3    |
| Axis Capital Holdings Limited (AXS)          | Neutral      | 4    |
| CNO Financial Group, Inc. (CNO)              | Neutral      | 3    |
| Scor SE (SCRYY)                              | Neutral      | 3    |
| Kemper Corporation (KMPR)                    | Underperform | 3    |
| Selective Insurance Group, Inc. (SIGI)       | Underperform | 3    |

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

| Industry Comparison Industry: Insurance - Multi Line |              |            |           | Industry Peers |              |            |
|------------------------------------------------------|--------------|------------|-----------|----------------|--------------|------------|
|                                                      | AIZ          | X Industry | S&P 500   | CNO            | KMPR         | ORI        |
| Zacks Recommendation (Long Term)                     | Underperform | -          | -         | Neutral        | Underperform | Outperform |
| Zacks Rank (Short Term)                              | 5            | -          | -         | 3              | 3            | 2          |
| VGM Score                                            | A            | -          | -         | A              | D            | B          |
| Market Cap                                           | 8.14 B       | 4.00 B     | 26.21 B   | 2.92 B         | 4.72 B       | 5.66 B     |
| # of Analysts                                        | 2            | 2          | 14        | 3              | 2            | 1          |
| Dividend Yield                                       | 1.82%        | 2.28%      | 1.5%      | 2.28%          | 1.66%        | 4.51%      |
| Value Score                                          | A            | -          | -         | A              | A            | A          |
| Cash/Price                                           | 0.31         | 0.29       | 0.06      | 0.36           | 0.21         | 0.15       |
| EV/EBITDA                                            | 9.92         | 4.47       | 14.53     | 6.52           | 5.98         | 4.25       |
| PEG F1                                               | NA           | 1.53       | 2.80      | NA             | NA           | NA         |
| P/B                                                  | 1.37         | 0.94       | 3.60      | 0.58           | 1.09         | 0.93       |
| P/CF                                                 | 13.04        | 8.69       | 13.74     | 5.78           | 11.60        | 10.20      |
| P/E F1                                               | 15.48        | 11.10      | 22.02     | 8.55           | 11.10        | 9.81       |
| P/S TTM                                              | 0.80         | 0.93       | 2.85      | 0.77           | 0.93         | 0.87       |
| Earnings Yield                                       | 6.46%        | 8.41%      | 4.32%     | 11.69%         | 9.01%        | 10.20%     |
| Debt/Equity                                          | 0.34         | 0.27       | 0.70      | 0.52           | 0.27         | 0.16       |
| Cash Flow (\$/share)                                 | 10.63        | 3.42       | 6.92      | 3.64           | 6.22         | 1.83       |
| Growth Score                                         | B            | -          | -         | B              | F            | C          |
| Historical EPS Growth (3-5 Years)                    | 14.84%       | 6.46%      | 9.79%     | 10.63%         | 83.31%       | 10.69%     |
| Projected EPS Growth (F1/F0)                         | 4.68%        | -7.46%     | 0.36%     | 36.67%         | 3.67%        | 3.26%      |
| Current Cash Flow Growth                             | 55.15%       | 7.19%      | 5.39%     | -7.46%         | 24.30%       | -0.40%     |
| Historical Cash Flow Growth (3-5 Years)              | 2.39%        | 1.69%      | 8.31%     | 0.13%          | 25.09%       | 18.95%     |
| Current Ratio                                        | 0.42         | 0.48       | 1.38      | 0.24           | 0.29         | 0.51       |
| Debt/Capital                                         | 25.27%       | 21.54%     | 41.97%    | 34.12%         | 21.25%       | 13.72%     |
| Net Margin                                           | 4.24%        | 5.64%      | 10.41%    | 12.27%         | 8.58%        | 4.85%      |
| Return on Equity                                     | 9.86%        | 7.59%      | 15.05%    | 7.21%          | 10.59%       | 10.24%     |
| Sales/Assets                                         | 0.23         | 0.20       | 0.50      | 0.11           | 0.38         | 0.30       |
| Projected Sales Growth (F1/F0)                       | 1.54%        | 0.00%      | 0.16%     | -13.59%        | 1.74%        | 3.78%      |
| Momentum Score                                       | B            | -          | -         | A              | D            | D          |
| Daily Price Change                                   | 1.08%        | 0.00%      | -0.35%    | -0.61%         | -1.07%       | -0.05%     |
| 1-Week Price Change                                  | 5.05%        | 7.66%      | 4.23%     | 8.40%          | 8.08%        | 6.62%      |
| 4-Week Price Change                                  | 13.04%       | 15.48%     | 6.91%     | 15.48%         | 12.44%       | 19.81%     |
| 12-Week Price Change                                 | 12.81%       | 10.52%     | 9.73%     | 27.13%         | -7.75%       | 15.07%     |
| 52-Week Price Change                                 | 4.77%        | -9.20%     | 6.44%     | 16.50%         | -2.72%       | -18.15%    |
| 20-Day Average Volume (Shares)                       | 448,159      | 211,956    | 2,205,801 | 845,052        | 214,657      | 2,302,622  |
| EPS F1 Estimate 1-Week Change                        | 0.00%        | 0.00%      | 0.00%     | 4.98%          | 0.00%        | 0.00%      |
| EPS F1 Estimate 4-Week Change                        | 3.53%        | 2.62%      | 1.73%     | 20.00%         | 0.93%        | 11.77%     |
| EPS F1 Estimate 12-Week Change                       | -6.04%       | 4.04%      | 3.56%     | 28.35%         | -1.29%       | 11.77%     |
| EPS Q1 Estimate Monthly Change                       | -6.71%       | 0.00%      | 0.58%     | 28.74%         | -2.86%       | 0.00%      |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | B |
| Momentum Score | B |
| VGM Score      | A |

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 proportionate to its market value.

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.

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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.