

American Tower Corp(AMT)

\$218.65 (As of 12/24/20)

Price Target (6-12 Months): **\$232.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

American Tower's acquisition of InSite Wireless Group will likely be immediately accretive to property revenues for 2021, with nearly \$150 million. Going forward, the company is well-positioned to benefit from incremental carrier network investments, driven by increasing mobile data usage, growth in 5G deployment and 4G network densification. These are likely to drive its leasing activity over the long term. The company's strong balance sheet also support its expansion plans. Dividend hikes boost shareholder confidence in the stock. Yet, its shares have underperformed the industry in the past three months. Also, tenant concentration is concerning as any consolidation or reduction in network spending might adversely impact the company's top-line growth. Stiff competition and elevated churn in certain emerging markets remain woes.

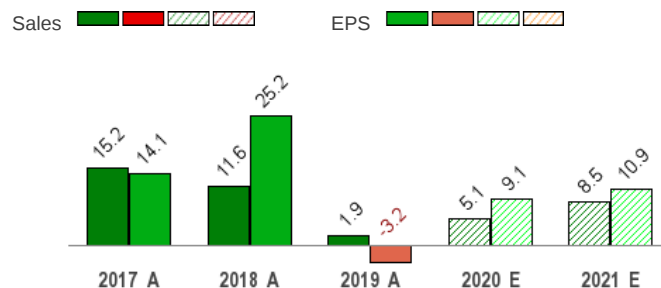
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$272.20 - \$174.32
20-Day Average Volume (Shares)	2,566,555
Market Cap	\$97.1 B
Year-To-Date Price Change	-4.9%
Beta	0.27
Dividend / Dividend Yield	\$4.84 / 2.2%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 15% (216 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.2%
Last Sales Surprise	2.3%
EPS F1 Estimate 4-Week Change	-0.0%
Expected Report Date	NA
Earnings ESP	6.7%
P/E TTM	26.1
P/E F1	25.9
PEG F1	1.6
P/S TTM	12.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,154 E	2,155 E	2,178 E	2,196 E	8,645 E
2020	1,993 A	1,913 A	2,013 A	2,057 E	7,968 E
2019	1,813 A	1,890 A	1,954 A	1,924 A	7,580 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.35 E	\$2.36 E	\$2.38 E	\$2.36 E	\$9.35 E
2020	\$2.12 A	\$2.07 A	\$2.23 A	\$2.08 E	\$8.43 E
2019	\$1.84 A	\$2.01 A	\$2.00 A	\$1.95 A	\$7.73 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 12/24/2020. The reports text is as of 12/28/2020.

Overview

Boston, MA-based American Tower Corporation is a leading independent operator of wireless communications towers in the United States, Brazil, Mexico, India and Chile. American Tower leases antenna space on its towers to wireless service providers as well as to radio and television broadcast companies. The company's major customers include AT&T, T-Mobile and Verizon Wireless. T-Mobile and Sprint completed the merger on Apr 1, 2020, creating the New T-Mobile.

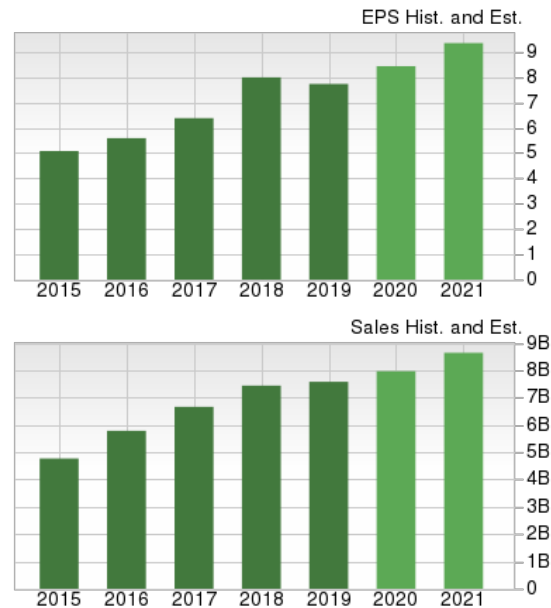
As of Sep 30, 2020, American Tower's portfolio included approximately 41,000 towers in the United States and 139,000 ones internationally. Moreover, it had around 1,800 distributed antenna systems (DAS) in its U.S. and international markets.

On May 19, 2011, the board of directors of American Tower approved the steps necessary to reorganize the company to qualify as a Real Estate Investment Trust (REIT) for tax purposes. American Tower became a REIT on Jan 1, 2012. A REIT has to pay at least 90% of its taxable income to shareholders in the form of dividend every year.

American Tower reports in two segments:

- **Property Segment** (98% of total revenues in 2019): The property segment includes the following regional segments: (i) The United States, (ii) Asia, (iii) Africa, (iv) Europe, and (v) Latin America.
- **Services Segment** (2%): This segment offers tower-related services, including site acquisition, zoning and permitting, and structural analysis services, which primarily support the company's site-leasing business, including the addition of new tenants and equipment at sites.

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:

- ▲ Growth in mobile data usage is a global phenomenon and amid this, colocation levels and the demand for communications real estate is expected to continue experience decent growth in the upcoming years. In fact, amid ongoing 5G transitions and 4G network densifications, carriers across the company's footprint are increasing their network deployments for extending capacity and handle the growing data demand. Further, with the advent of technologies, especially 5G and Internet of Things (IoT), there are solid prospects for growth of American Tower.
- ▲ There has been a spike in cellular network usage and network-intensive applications for video conferencing and cloud services as companies have embraced remote working lifestyles amid the pandemic. In fact, as an increasing number of people work remotely using high-speed Internet, there have been issues related to network capacity, reinforcing the need for additional network investments. Also, 5G network's low latency and high speed is the need of the hour, driving the need for faster build-out of 5G wireless networks. Further, network integrations at the combined T-Mobile, future supply of mid-band spectrum and the 5G network rollout by Dish Network are likely to propel demand. These are likely to result in greater utilization of the company's tower real estate, driving leasing activity in the near term. Importantly, in September, American Tower announced a new master lease agreement with its tenant T-Mobile U.S. Inc. The lease provides revenue-growth visibility for American Tower. The lease enables T-Mobile to access American Tower's U.S. sites, facilitating fast and efficient deployment of broad 5G service across the nation. With an average non-cancellable term of nearly 15 years on leases, American Tower secured \$17.1 billion in additional contractually-committed revenues over the said term.
- ▲ Moreover, the company has been delivering healthy performance on the back of a robust demand for its tower assets. This enabled it to witness strong growth in key financial metrics, while continuing platform expansion. In fact, over the past 10 years, (2009-2019) American Tower improved its property segment revenues and adjusted EBITDA, witnessing a CAGR of 16.2% and 14.9%, respectively. Over the same period, consolidated adjusted FFO (AFFO) has increased, seeing a CAGR of 15.2%. This healthy trend is expected to continue throughout 2020, with property segment revenues, adjusted EBITDA and consolidated AFFO projected to increase 5.6%, 7.5% and 6.4%, respectively, year over year at the mid-point.
- ▲ American Tower has a resilient and stable business model and this provides a comparatively safer harbor amid the current global uncertainty. The company generates most of its revenues from long-term (typically 5-10 year) tower leases with major wireless carriers. In fact, it expects to generate more than \$58 billion in non-cancellable tenant lease revenues over future periods. In addition, American Tower provides on-site maintenance and servicing of antennas, amplifiers, and base station equipment. Since moving equipment from one tower to another is cumbersome, carriers normally renew these contracts upon expiration. This generates a strong long-term lease up-cycle. The revenues generated from leasing and management of such networks is substantial and around 95% is recurring in nature. Moreover, most of the company's towers are over 210 feet tall, thus allowing sufficient space for its customers to install transmission equipment, thereby enabling the company to accommodate more tenants.
- ▲ Further, American Tower continued its focus on macro-tower investment opportunities. In fact, the company is ramping up its investments in the international business and strengthening global footprint through acquisitions. In December, the company announced an acquisition deal to purchase InSite Wireless Group's portfolio of more than 1,400 and 200 towers in the United States and Canada, respectively. This is a strategic fit as it will represent the company's entry into Canada and boost its U.S. business. Moreover, during the third quarter, it spent around \$101 million to acquire 305 communication sites primarily in international markets. In fact, organic new business activity and contributions from new assets are likely to buoy international property segment's tenant billings growth in the upcoming period.
- ▲ American Tower has a robust operating platform and ample liquidity to support its debt servicing. Its consistent adjusted EBITDA margins and revenue growth as well as favorable return on invested capital indicate the strength in its core underlying business and support its ability to manage its near-term obligations. As of the third-quarter end, its net leverage ratio was at 4.5X, while total liquidity stood at \$6.7 billion. This comprised \$1.6 billion in cash and cash equivalents, and availability of \$5.1 billion under its revolving credit facilities. Moreover, during the third quarter, the company extended debt maturities and reduced weighted average costs of borrowings on the back of refinancing efforts. Finally, as of the third-quarter end, it enjoyed investment-grade credit rating of BBB-, BBB+ and Baa3 as well as a stable outlook from Standard & Poor's, Fitch, and Moody's, respectively, and this renders the company favorable access to debt.
- ▲ American Tower has a disciplined capital-allocation strategy and remains committed to increase shareholder value through dividend hikes. The company has consistently increased its quarterly dividends since 2012. In fact, its average annual dividend per share has witnessed growth of more than 20% since 2012. In December, the company announced a 6.1% sequential hike in quarterly dividend to \$1.21 per share. We believe such disbursements highlight its operational strength and commitment toward rewarding shareholders handsomely. Given its lower dividend payout (as compared to its industry), its dividend distribution is expected to be sustainable. Further, during second-quarter 2020, American Tower repurchased nearly 51,000 shares of common stock under its stock repurchase program for around \$11 million and had around \$2 billion remaining under its current stock repurchase programs. Such moves also boost investors' confidence in the stock.
- ▲ Over the past three months, shares of American Tower have underperformed the industry it belongs to. During the period, shares of the company have declined 8.9% against its industry's rally of 4.2%. Nonetheless, the trend in estimate revisions for 2020 FFO per share indicates a favorable outlook for the company as it has improved marginally in the past month. Therefore, positive estimate revision, the stock has decent upside potential.

American Tower will benefit from increased investment by wireless carriers in 4G LTE and 5G networks. Solid business fundamentals and prudent capital-allocation strategy augur well for growth.

Reasons To Sell:

- ▼ Customer concentration is high for American Tower, with AT&T, Verizon Wireless and T-Mobile being its top three customers, accounting for 51% of the company's total property segment revenues as of third-quarter 2020. The loss of any of these customers, consolidation among them or reduction in network spending leads to material impact on the company's top line. Notably, the merger between T-Mobile and Sprint, which closed in April, resulted in tower site overlap for American Tower. This overlap accounted for 3-4% of total property revenues and now represents elevated levels of churn rate (lost tenant billings).
- ▼ American Tower is rapidly expanding in the international markets, especially in the emerging Asian and Latin American markets. Although this geographic diversification will boost revenues, it may affect the bottom line. This is because tower operations in the emerging markets are not as profitable as that in the mature U.S. market. Moreover, elevated churn is a concern in certain emerging markets where the company operates. Further, the ongoing coronavirus pandemic have led to significant volatility in foreign currency exchange rates, resulting in foreign exchange loss of \$49 million in the third quarter.
- ▼ American Tower faces stiff competition in its industry for new business and asset acquisitions. In fact, the company competes with several tower companies, such as Crown Castle International Corp. and SBA Communications Corporation, as well as other wireless carrier tower companies, broadcasters and owners of non-communications sites. Given the solid growth potential in the tower business, competition is expected to intensify in the upcoming period from existing players, as well as the entry of new players. This competitive landscape is likely to increase pricing pressure for American Tower. Moreover, stiff competition for assets may hinder the company's ability to achieve attractive return on investment.

American Tower faces stiff competition from other tower companies. Also, tenant concentration is concerning as consolidations or reduction in network spending impacts the company's top line.

Last Earnings Report

American Tower Q3 AFFO Tops Estimates, Revenues Rise Y/Y

American Tower reported third-quarter 2020 AFFO per share of \$2.23, beating the Zacks Consensus Estimate of \$2.08. Further, the reported figure improved 15.5% year over year.

The company generated total revenues of \$2.01 billion, which outpaced the Zacks Consensus Estimate of \$1.97 billion. Moreover, the figure improved 3% year over year.

The company witnessed strong organic tenant billing growth. Moreover, robust revenue growth in the Africa and Europe property segments supported top-line improvement.

Quarter Ending **09/2020**

Report Date	Oct 29, 2020
Sales Surprise	2.34%
EPS Surprise	7.21%
Quarterly EPS	2.23
Annual EPS (TTM)	8.37

Quarter in Detail

Adjusted EBITDA in the reported quarter was \$1.29 billion, up 5.6% from the prior-year quarter. Adjusted EBITDA margin was 64.5% in the third quarter of 2020. Operating income was \$785.1 million, up 7.8% from the year-ago quarter's figure.

During the third quarter, the company spent around \$101 million to acquire 305 communication sites primarily in international markets.

Cash Flow and Liquidity

In the third quarter of 2020, American Tower generated \$960 million of cash from operating activities, rising 2.5% year over year. Free cash flow during the period was \$710 million, up 7.5% year over year.

At the end of the third quarter, the company had \$6.7 billion of total liquidity. This comprised \$1.6 billion in cash and cash equivalents, and availability of \$5.1 billion under its revolving credit facilities (net of any outstanding letters of credit).

Property Segment

Quarterly revenues grossed \$1.99 billion, up 3.4% year over year. Operating profit was \$1.33 billion and operating profit margin was 67% during third-quarter 2020.

In the Property segment, revenues from the United States totaled \$1,122 million, up 2.4% year over year. Further, total international revenues amounted to \$885 million, up 4.8% year over year.

Within this, revenues from Asia totaled \$305 million, declining 2.3 % year over year, while Latin America revenues totaled \$301 million, down 9.1% year over year. Africa revenues grossed \$220 million, up 48.4% year over year, while Europe revenues of \$39 million improved 16.2% from the year-ago period.

Services Segment

Quarterly revenues totaled \$25.3 million, down 20.9% year over year. Operating profit was \$11 million and operating profit margin was 43% during the September-end quarter.

Outlook

For 2020, American Tower anticipates property revenues of \$7,855-\$7,915 million, reflecting a year-over-year improvement of 5.6% at the mid-point. Adjusted EBITDA is projected at \$5,075-\$5,125 million, indicating a mid-point increase of 7.5% from the prior year. Consolidated AFFO is estimated to be \$3,720-\$3,770 million, suggesting a year-over-year mid-point expansion of 6.4%.

Recent News

American Tower Grows Assets With InSite Wireless Buyout – Dec 23, 2020

American Tower announced the closure of its InSite Wireless Group, LLC. acquisition for a total consideration of \$3.5 billion including debt. The deal was publicized last month and the buyout is projected to be immediately accretive.

Precisely, the acquired entity that owned, operated and managed around 3,000 communications sites, mainly in the United States and Canada, is likely to generate roughly \$150 million in property revenues and around \$115 million in gross margin in 2021, per management.

The transaction, which was funded by a combination of cash on hand and revolver borrowings, not only marked American Tower's entry in Canada but also fortified its U.S. business by adding a high-quality, complementary, macro-tower focused portfolio.

Particularly, according to the company's earlier press release, InSite's portfolio included more than 1,400 owned towers in the United States and more than 200 owned towers in Canada. Also, the portfolio comprised roughly 70 DAS networks in the United States. This apart, InSite controlled more than 600 land parcels under communications sites and around 400 rooftop sites.

"As 5G densification initiatives in the U.S. accelerate and network deployments in international markets continue, we believe we are well positioned to generate attractive, sustainable long-term growth, including on these new sites, while playing a key role in enhancing mobile broadband connectivity," stated CEO Tom Bartlett.

American Tower Cheers Investors With 6.1% Dividend Hike – Dec 3, 2020

American Tower announced that its board of directors has approved a quarterly dividend payment of \$1.21. This represents a sequential hike of 6.1% from the prior dividend of \$1.14.

Based on the hiked rate of \$1.21 for the quarter, the annual dividend comes to \$4.84 per share. This new dividend will be paid on Feb 2, 2021, to shareholders of record on Dec 28, 2020. Moreover, this September, the company announced a 3.6% sequential hike in quarterly dividends to \$1.14 per share.

American Tower to Raise \$1.6B With Senior Notes Offerings – Nov 17, 2020

American Tower has priced a public offering of three series of senior unsecured notes, aggregating \$1.7 billion in principal amount. The net proceeds of the offering are estimated to be \$1,678.9 million, after deducting underwriting discounts and offering expenses.

Specifically, the company priced senior unsecured notes maturing in 2024, 2028 and 2051, with aggregate principal amounts of \$500 million, \$650 million and \$550 million, respectively. The 2024 notes carry an annual interest rate of 0.600% and are priced at 99.825% of the face value.

The 2028 notes, with an interest rate of 1.500% per year, have been priced at 99.971% of their face value, while the 2051 notes, carrying an annual interest rate of 2.950%, are being issued at 98.930% of the face value.

The company plans to use net proceeds to repay outstanding amounts under its \$2.35-billion senior unsecured revolving credit facility that was amended and restated in December 2019. Notably, as of the third-quarter end, the outstanding principal balance under this credit facility amounted to \$390 million.

Following the allocation referenced above, American Tower intends to use the remaining funds for general business needs, inclusive of acquisitions, additions to working capital and to repay or refinance existing debt obligations.

American Tower Announces Multi-year Lease Agreement With T-Mobile – Sep 15, 2020

American Tower announced a new master lease agreement with its tenant T-Mobile U.S. Inc. The lease provides revenue-growth visibility for American Tower.

The lease enables T-Mobile to access American Tower's U.S. sites, facilitating fast and efficient deployment of broad 5G service across the nation. With this, the tenant can serve the wireless needs of the United States over the long term, while at the same time increasing 5G coverage and enhancing speed across the country.

Notably, American Tower's extensive portfolio of communication sites and macro tower, consisting of 41,000 properties in the United States, has likely enabled it to lock this deal. Further, the agreement strengthens the partnership and will drive significant value for both companies over the long term.

Per T-Mobile management, "wireless mobility has never been more critical for consumers and businesses alike, and as technology continues to advance into 5G and beyond, that will only increase". Hence, the agreement is a strategic fit for both companies.

Valuation

American Tower's shares have been down 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have

declined 5.3% and 3.7% in the past year, respectively.

The S&P 500 Index is up 17.1% in the past year.

The stock is currently trading at 24.23X forward 12-month FFO, which compares to 19.21X for the Zacks sub-industry, 16.88X for the Zacks sector and 22.86X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 32.04X and as low as 14.72X, with a 5-year median of 19.87X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$232 price target reflects 25.71X FFO.

The table below shows summary valuation data for AMT.

Valuation Multiples - AMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.23	19.21	16.88	22.86
	5-Year High	32.04	19.50	16.88	23.79
	5-Year Low	14.72	14.31	11.59	15.30
	5-Year Median	19.87	16.25	14.45	17.81
P/S F12M	Current	11.24	7.44	7.08	4.34
	5-Year High	14.68	7.45	7.08	4.34
	5-Year Low	6.55	5.19	5.02	3.17
	5-Year Median	8.80	6.29	6.11	3.67
P/B TTM	Current	23.19	2.25	2.82	6.37
	5-Year High	29.64	2.73	2.94	6.40
	5-Year Low	5.28	1.63	1.74	3.74
	5-Year Median	9.22	2.33	2.58	4.93

As of 12/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Crown Castle International Corporation (CCI)	Neutral	3
CorEnergy Infrastructure Trust, Inc. (CORR)	Neutral	4
Digital Realty Trust, Inc. (DLR)	Neutral	3
Equinix, Inc. (EQIX)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
Uniti Group Inc. (UNIT)	Neutral	3
CyrusOne Inc (CONE)	Underperform	4

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	AMT	X Industry	S&P 500	CCI	SBAC	UNIT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	D	A
Market Cap	97.13 B	2.48 B	26.20 B	66.42 B	30.56 B	2.70 B
# of Analysts	6	4	13	5	4	2
Dividend Yield	2.21%	3.53%	1.48%	3.45%	0.68%	5.18%
Value Score	D	-	-	D	F	A
Cash/Price	0.02	0.04	0.06	0.01	0.01	0.07
EV/EBITDA	26.33	14.81	14.57	27.16	30.77	2.99
PEG F1	1.61	4.01	2.83	1.21	NA	NA
P/B	23.19	1.34	3.64	6.99	NA	NA
P/CF	26.23	12.27	13.90	26.28	34.28	4.88
P/E F1	25.94	16.46	22.12	25.31	29.23	6.98
P/S TTM	12.38	5.37	2.85	11.50	14.83	2.54
Earnings Yield	3.86%	5.51%	4.36%	3.95%	3.42%	-7.16%
Debt/Equity	5.73	0.94	0.70	2.02	-2.38	-0.02
Cash Flow (\$/share)	8.34	2.05	6.93	5.86	8.02	2.38
Growth Score	D	-	-	D	B	C
Historical EPS Growth (3-5 Years)	11.69%	0.38%	9.71%	7.58%	NA	-6.67%
Projected EPS Growth (F1/F0)	9.10%	-2.44%	1.26%	6.92%	10.81%	-139.66%
Current Cash Flow Growth	9.58%	3.22%	5.23%	10.48%	17.05%	-5.21%
Historical Cash Flow Growth (3-5 Years)	15.15%	12.69%	8.33%	10.82%	6.55%	NA
Current Ratio	1.35	1.55	1.38	0.62	0.83	0.05
Debt/Capital	85.14%	48.55%	41.97%	66.88%	NA	NA
Net Margin	24.08%	9.87%	10.40%	13.09%	-0.70%	-63.32%
Return on Equity	42.42%	3.53%	14.99%	7.57%	NA	NA
Sales/Assets	0.19	0.12	0.50	0.15	0.22	0.22
Projected Sales Growth (F1/F0)	5.12%	0.00%	0.35%	0.35%	3.12%	-0.04%
Momentum Score	F	-	-	D	D	C
Daily Price Change	0.57%	0.69%	0.29%	1.01%	0.75%	-0.77%
1-Week Price Change	0.77%	0.00%	0.87%	-2.45%	0.48%	2.37%
4-Week Price Change	-6.16%	0.74%	0.99%	-6.64%	-2.69%	8.01%
12-Week Price Change	-9.70%	12.03%	14.77%	-8.34%	-12.74%	9.86%
52-Week Price Change	-4.05%	-13.77%	5.47%	9.53%	13.99%	39.30%
20-Day Average Volume (Shares)	2,566,555	738,636	2,028,114	2,659,476	636,860	3,378,385
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.02%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	1.98%	0.52%	3.68%	0.73%	0.53%	-0.60%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	D
Growth Score	D
Momentum Score	F
VGM Score	F

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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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.

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.