

## BCE Inc. (BCE)

**\$43.20** (As of 01/28/21)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

## Summary

Bell, which is wholly owned by BCE, is well positioned to benefit from a postpaid business with solid subscriber additions and higher revenue contribution from prepaid services. Major investments for network coverage, lucrative data plans and the launch of new handsets are likely to drive its subscriber base. Fortifying its strategy to focus on investments in Canada's best networks, content and services, Bell sold 13 data center sites to Equinix in an all-cash deal valued at C\$1,041 million. However, the company's local lines for traditional telephony service continue to face a decline among large customers. The successful implementation of BCE's core goals is the most critical factor in determining its profitability. The execution requires enhanced employee skills and more capital investments, which put pressure on margins.

## Price, Consensus & Surprise

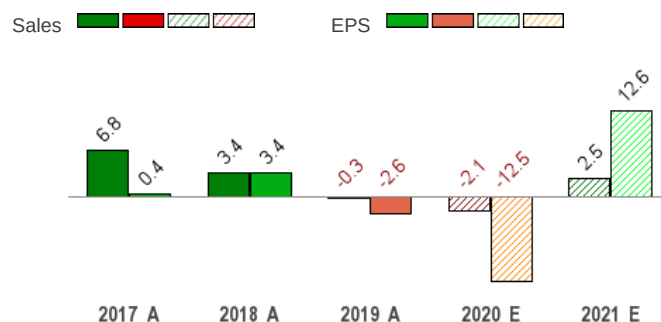


Source: Zacks Investment Research

## Data Overview

|                                |                                                       |
|--------------------------------|-------------------------------------------------------|
| 52-Week High-Low               | \$49.26 - \$31.66                                     |
| 20-Day Average Volume (Shares) | 982,170                                               |
| Market Cap                     | \$38.9 B                                              |
| Year-To-Date Price Change      | 0.6%                                                  |
| Beta                           | 0.39                                                  |
| Dividend / Dividend Yield      | \$2.62 / 6.1%                                         |
| Industry                       | Diversified                                           |
| Zacks Industry Rank            | Communication Services<br>Bottom 23% (194 out of 253) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 1.7%       |
| Last Sales Surprise           | 0.5%       |
| EPS F1 Estimate 4-Week Change | 0.6%       |
| Expected Report Date          | 02/04/2021 |
| Earnings ESP                  | -0.1%      |
| P/E TTM                       | 18.7       |
| P/E F1                        | 16.6       |
| PEG F1                        | 3.3        |
| P/S TTM                       | 2.3        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 |         |         |         |         | 18,131 E |
| 2020 | 4,187 A | 3,862 A | 4,343 A | 4,822 E | 17,682 E |
| 2019 | 4,313 A | 4,433 A | 4,533 A | 4,785 A | 18,059 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.58 E | \$0.63 E | \$0.70 E | \$0.60 E | \$2.60 E |
| 2020 | \$0.58 A | \$0.46 A | \$0.59 A | \$0.60 E | \$2.31 E |
| 2019 | \$0.58 A | \$0.70 A | \$0.69 A | \$0.67 A | \$2.64 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 01/28/2021. The reports text is as of 01/29/2021.

## Overview

BCE Inc. is Canada's largest communications service provider and serves as the holding company for Bell Canada. The company provides local and long-distance phone service to approximately 70% of the Canadian population, primarily in Ontario and Québec.

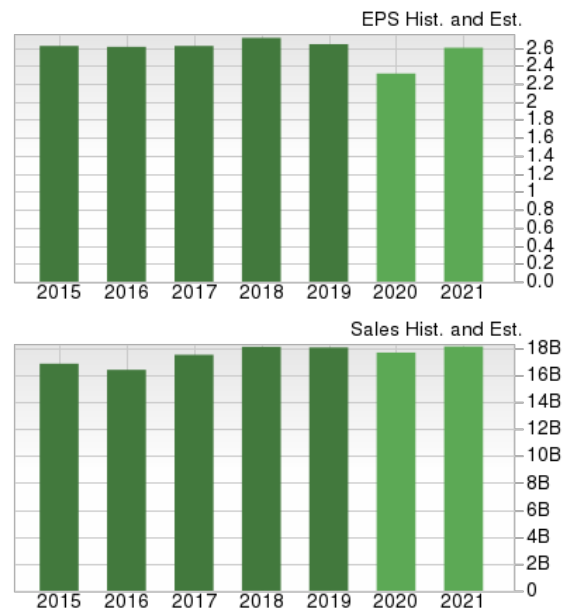
BCE's wholly owned subsidiary Bell Canada operates the company's wireline (Bell Wireline) and wireless (Bell Wireless) businesses, Bell Media as well as the satellite TV operation, known as ExpressVu. Bell Canada is the largest local exchange carrier in Ontario and Quebec. The company provides wireless service, data communications, telephone, high-speed Internet, direct-to-home (DTH) satellite television and Voice over Internet Protocol (VoIP) services. Bell Canada also offers integrated information and communications technology (ICT) services to businesses and governments, and is the virtual chief information officer (VCIO) to small and medium businesses (SMBs).

BCE reports operating results in three segments, namely, Bell Wireline, Bell Wireless and Bell Media. The following is a snapshot of the company's operating segments:

**Bell Wireline** (50.7% of total operating revenues in third-quarter 2020): Provides local telephone, long distance, data, video and other communications services to residential, business and large enterprise customers primarily in the urban areas of Ontario and Quebec.

**Bell Wireless** (38.8%): Offers wireless voice and data communications products and services to residential, small and medium businesses and large enterprise customers across Canada.

**Bell Media** (10.5%): Offers a package of mobile content featuring the most popular news, entertainment and sports programming in Canada, including live or on-demand programming from TSN, RDS, BNN, MTV and The Comedy Network as well as Bell's popular Sympatico.ca portal.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Bell, which is wholly owned by BCE, activated Canada's largest 5G wireless network, offering unprecedented mobile data speeds in Montreal, the Greater Toronto Area, Calgary, Edmonton and Vancouver. The company announced that Ericsson will join Nokia as a provider of radio access network equipment for Bell 5G. As part of its mobile 5G strategy, Bell announced its first 5G network equipment supplier agreement with long-time partner Nokia. Bell aims to deliver initial 5G service in urban centers across Canada as 5G smartphones come to market. It will continue to enhance 5G access speeds, capacity and coverage.
  - ▲ As part of its fiber-to-the-premises (FTTP) expansion into the populous 905 region surrounding Toronto, Bell is bringing direct fiber links to more than 200,000 residential and business locations in the City of Hamilton. The company also continues to expand the reach of its fiber network in smaller centers, including Northern Manitoba to about 2,800 locations in the City of Flin Flon. Reinforcing its strategy to focus on investment in Canada's best networks, content and services, Bell completed the divestment of 13 data center sites to Equinix in an all-cash transaction of C\$1,041 million (\$780 million). The company's underlying business fundamentals are strong. Its robust cash position, backed by a solid balance sheet, significant free cash flow generation and access to the debt and bank capital markets, is expected to provide financial flexibility to fund its planned capital expenditures with steady dividend payments.
  - ▲ BCE's wireless segment is expected to benefit from postpaid business as it continues to enjoy solid subscriber additions as well as higher revenue contribution from prepaid services. Significant investments in network coverage, customer retention, lucrative data plans and launch of new handsets are likely to drive subscriber base expansion. Of late, it is witnessing operating profitability growth across its wireless, wireline, and media segments. Bell Media's Crave is currently a bilingual TV and streaming service offering more than 6,000 hours of exclusive francophone content from Crave and Super Écran as well as French-language versions of Showtime and HBO programming.
  - ▲ On the wireline front, the telecommunications company expects financial results to improve as it continues to gain from an increase in net revenue generation units. The EBITDA growth trend in the segment is expected to stay. BCE continues to benefit from FibeTV and FibreOP TV growth, price hike and an improved business market stemming from a steady economy. The company is likely to benefit from robust activities in the wireless business, strong subscriber additions, drop in churn rates and its focus on technology upgrades. The company continues to focus on six strategic areas, investment in broadband network and services, accelerating wireless services, leveraging wireline momentum, expanding media coverage, improving customer service and achieving a competitive cost structure. These initiatives are expected to generate higher revenue per user and attract new customers in the coming days.
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Bell, which is wholly owned by BCE, activated Canada's largest 5G wireless network, offering unprecedented mobile data speeds in Montreal, the Greater Toronto Area, Calgary, Edmonton and Vancouver.

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## Reasons To Sell:

- ▼ Due to uncertainties related to the pandemic, BCE withdrew (on May 6) all of its 2020 financial guidance that was announced on Feb 6. The successful implementation of BCE's six core goals is the most critical factor in determining its future profitability. The execution requires enhanced employee skills, more capital investments and targeted cost reductions. Failure of any of these changes might have an adverse impact on the company's financials and growth prospects, thereby leading to lower revenues and profitability.
- ▼ The company's huge debts are worrisome. As of Sep 30, 2020, BCE had \$1,260 million in cash and cash equivalents with \$18,703 million of long-term debt compared with the respective tallies of \$1,116 million and \$18,055 million at the end of the previous quarter. BCE has a debt-to-capital ratio of 0.54 compared with 0.7 of the industry. Although its dividend payout has increased over the past few quarters to 106.2%, the times interest earned (TIE) ratio has declined over the past quarters to 4 at present. This indicates that the company is reeling under pressure to meet its debt obligations. It is to be seen whether BCE faces any crisis due to disruptions stemming from the pandemic.
- ▼ The price cap rules introduced by the Canadian regulators are limiting rate increase and reducing the amount that incumbent carriers can charge competitors for accessing their network. While BCE attempts to offset inter-carrier price caps by raising the fees of its own end-users, the market dynamics and dictating elasticity have reduced overall demand as customers switch to lower-priced carriers. Moreover, the company's local line access for traditional telephony service continues to face a decline among large customers due to higher wireless substitution and migration to IP-based services. This is reflected by persistent erosion in overall network access services on a year-over-year basis, hurting revenues of the local and long distance operations.
- ▼ With rapid growth in video and other bandwidth-intensive applications on the Internet and on mobile devices, BCE continues to invest substantially in LTE (Long-Term Evolution), broadband and fiber in order to provide additional capacity on Internet and wireless networks. The company may be unable to recover these costs from customers due to competitors' short-term pricing of comparable services. Also, a major portion of BCE's employees are represented by unions and covered by collective bargaining agreements. Renegotiating collective bargaining agreements could result in higher labor costs and work disruptions, including work stoppages or work slowdown. Moreover, satellites used by Bell TV are subject to significant operational risks. Satellites that are not yet built are subject to construction and launch delays that could have an adverse effect on Bell TV's business and financial health.

BCE continues to struggle with stringent regulatory norms, loss of network access lines, price competition and labor union issues. Operational risks related to satellites are headwinds.

## Last Earnings Report

### BCE Q3 Earnings Surpass Estimates, Revenues Decline Y/Y

BCE reported disappointing third-quarter 2020 results with both the bottom and the top line deteriorating on a year-over-year basis.

#### Net Income

Net earnings in the September quarter declined 20.2% year over year to C\$692 million or C\$0.77 per share. This deterioration was caused by higher other expenses and lower adjusted EBITDA on the back of elevated depreciation and amortization.

Adjusted net earnings came in at C\$712 million (\$534.3 million) or C\$0.79 (59 cents) per share compared with C\$812 million or C\$0.91 per share in the prior-year quarter. Nevertheless, the bottom line beat the Zacks Consensus Estimate by a penny.

#### Revenues

This Canada-based telecommunications company's total operating revenues dipped 2.6% year over year to C\$5,787 million (\$4,342.8 million). The downtick was mainly due to the adverse impact of the COVID-19 pandemic on BCE's wireless roaming volumes, which induced reduced spending by business customers with sluggish demand for media advertising. The top line, however, surpassed the consensus estimate of \$4,322 million.

Service revenues declined 4.2% to C\$4,924 million on lower year-over-year wireless service and media revenues. Product revenues increased 8% to C\$863 million, primarily driven by lower customer churn with higher retail sales activity and the growing work-from-home trend in the wake of the COVID-19 pandemic.

#### Segment Results

Revenues from **Bell Wireless** inched up 0.3% year over year to C\$2,318 million on higher product revenues. Service revenues slipped 4.3% to C\$1,575 million, primarily due to lower roaming revenues from infrequent travel with reduced data overage from higher adoption of unlimited plans. Product revenues increased 11.9% to C\$743 million, driven by robust sales of consumer electronics at The Source, a Canadian consumer electronics company, coupled with higher online shopping amid pandemic restrictions.

**Bell Wireline** revenues slid 0.8% year over year to C\$3,032 million. Service revenues decreased 0.4% to C\$2,911 million due to declines in legacy voice, data and satellite TV services as well as weak business service solutions sales. Product revenues dropped 10.4% to C\$121 million due to a fall in data equipment sales to large enterprise customers and delays in customer spending, considering the current economic volatility.

**Bell Media** generated revenues of C\$628 million, down 16.4% year over year due to soft advertising and subscriber revenues. Advertising revenues declined materially on tepid advertiser spending across all platforms like TV, radio, out of home and digital due to the COVID-19 pandemic.

#### Other Details

Overall, adjusted EBITDA was C\$2,454 million, down 4.4% year over year. This was due to 4.4% decline at Bell Wireless, 1.6% at Bell Wireline and 21.2% at Bell Media. Adjusted EBITDA margin contracted to 42.4% from 43.2%.

#### Cash Flow & Liquidity

In the first nine months of 2020, BCE generated C\$6,123 million of cash from operating activities compared with C\$5,867 million in the prior-year period. Free cash flow for the same time frame was C\$3,256 million compared with C\$2,864 million in the year-ago period.

As of Sep 30, the company had C\$1,679 million (\$1,256.2 million) in cash and cash equivalents with C\$24,914 million (\$18,640.8 million) of long-term debt compared with the respective tallies of C\$1,547 million and C\$25,024 million at the end of the previous quarter.

#### 2020 Outlook

Due to COVID-19-related uncertainties, BCE withdrew (on May 6) its 2020 financial guidance, earlier announced on Feb 6. Nevertheless, the company's underlying business fundamentals remain strong. Its strong liquidity position, underpinned by a healthy balance sheet, substantial free cash flow generation and access to the debt and bank capital markets, is expected to provide financial flexibility to execute its planned capital expenditures with sustained dividend payments in the near term.

*Conversion rate used:*

*C\$1 = \$0.750449 (period average from Jul 1, 2020 to Sep 30, 2020)*

*C\$1 = \$0.748205 (as of Sep 30, 2020)*

Quarter Ending 09/2020

|                  |              |
|------------------|--------------|
| Report Date      | Nov 05, 2020 |
| Sales Surprise   | 0.50%        |
| EPS Surprise     | 1.72%        |
| Quarterly EPS    | 0.59         |
| Annual EPS (TTM) | 2.30         |

## Recent News

On Dec 18, 2020, Bell announced new milestones in its action plan to simplify the process for service providers requesting access to aerial infrastructures in Quebec. Service providers will now be able to conduct their own structural surveys and carry out work as soon as their own engineers confirm that safety standards have been met. This will be followed by inspections by Bell network professionals to ensure full standards compliance. Bell also announced the establishment of a Centre of Excellence to share best practices with service providers.

On Nov 18, 2020, Bell Media announced its collaboration with Grande Studios by acquiring a minority stake in the latter to increase its resources to Quebec's French-language content creation and production communities.

On Oct 19, 2020, Bell announced the expansion of its high-speed Wireless Home Internet service to rural areas of Atlantic Canada for reliable broadband service. About 70,000 locations will be benefited from this service with a tally of 200,000 over a span of two years.

On Oct 1, 2020, Bell announced the completion of the acquisition of its 13 Canada data centers by Equinix, a leading digital infrastructure company for a valuation of C\$1,041 million (\$780 million). This all-cash transaction is expected to strengthen Equinix's position by accelerating Canadian businesses to rapidly augment their overall infrastructure while tapping new growth opportunities.

## Valuation

BCE's shares are down 9.3% in the trailing 12-month period, but up 2.8% in the past six months. Stocks in the Zacks sub-industry are down 10.7% in the past year, but up 6.2% in the past six months. Stocks in the Zacks Utilities sector are down 11.4% in the past year, but up 6.1% in the past six months.

The S&P 500 Index is up 17.3% in the past year and up 17.8% in the past six months.

The stock is currently trading at 7.98X trailing 12-month EV/EBITDA, which compares to 14.57X for the Zacks sub-industry, 17.68X for the Zacks sector and 17.21X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 8.97X and as low as 6.51X, with a 5-year median of 8.11X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$46 price target reflects 15.1X trailing 12-month book value.

The table below shows summary valuation data for BCE

| Valuation Multiples - BCE |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM             | Current       | 7.98  | 14.57        | 17.68  | 17.21   |
|                           | 5-Year High   | 8.97  | 14.97        | 19.39  | 17.54   |
|                           | 5-Year Low    | 6.51  | 6.89         | 10.74  | 9.53    |
|                           | 5-Year Median | 8.11  | 11.45        | 14.25  | 13.24   |
| P/B TTM                   | Current       | 3.05  | 3.76         | 3.72   | 6.52    |
|                           | 5-Year High   | 4.41  | 4.65         | 3.87   | 6.64    |
|                           | 5-Year Low    | 2.2   | 2            | 2.25   | 3.73    |
|                           | 5-Year Median | 3.33  | 2.44         | 2.59   | 4.95    |
| P/E F12M                  | Current       | 16.59 | 12.45        | 13.64  | 22.56   |
|                           | 5-Year High   | 18.48 | 17.08        | 15.39  | 23.8    |
|                           | 5-Year Low    | 11.72 | 10.04        | 11.38  | 15.3    |
|                           | 5-Year Median | 16.77 | 14.43        | 13.88  | 17.82   |

As of 01/28/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                 | Rec          | Rank |
|----------------------------------|--------------|------|
| Chunghwa Telecom Co., Ltd. (CHT) | Neutral      | 3    |
| Deutsche Telekom AG (DEGY)       | Neutral      | 2    |
| Swisscom AG (SCMWY)              | Neutral      | 3    |
| Telenor ASA (TELNY)              | Neutral      | 3    |
| Telstra Corp. (TLSYY)            | Neutral      | 3    |
| Vivendi SA (VIVHY)               | Neutral      | 3    |
| Telecom Italia S.P.A. (TIAY)     | Underperform | 4    |
| TELUS Corporation (TU)           | Underperform | 4    |

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

| Industry Comparison Industry: Diversified Communication Services |         |            |           | Industry Peers |         |              |
|------------------------------------------------------------------|---------|------------|-----------|----------------|---------|--------------|
|                                                                  | BCE     | X Industry | S&P 500   | TIAY           | TLSYY   | TU           |
| Zacks Recommendation (Long Term)                                 | Neutral | -          | -         | Underperform   | Neutral | Underperform |
| Zacks Rank (Short Term)                                          | 3       | -          | -         | 4              | 3       | 4            |
| VGM Score                                                        | B       | -          | -         | A              | D       | B            |
| Market Cap                                                       | 38.94 B | 10.96 B    | 26.41 B   | 9.14 B         | 28.35 B | 26.87 B      |
| # of Analysts                                                    | 6       | 1.5        | 13        | 3              | 2       | 6            |
| Dividend Yield                                                   | 6.08%   | 1.55%      | 1.45%     | 7.23%          | 4.38%   | 4.59%        |
| Value Score                                                      | B       | -          | -         | A              | C       | C            |
| Cash/Price                                                       | 0.03    | 0.08       | 0.06      | NA             | 0.01    | 0.02         |
| EV/EBITDA                                                        | 7.96    | 6.22       | 14.73     | NA             | 14.25   | 9.57         |
| PEG F1                                                           | 3.32    | 4.33       | 2.43      | NA             | 6.78    | 5.26         |
| P/B                                                              | 3.04    | 2.79       | 3.66      | 0.38           | 2.79    | 2.85         |
| P/CF                                                             | 6.73    | 5.69       | 14.44     | 1.40           | 23.26   | 7.80         |
| P/E F1                                                           | 16.51   | 17.65      | 19.77     | 8.68           | 25.09   | 22.04        |
| P/S TTM                                                          | 2.27    | 0.93       | 2.84      | NA             | NA      | 2.37         |
| Earnings Yield                                                   | 6.04%   | 5.33%      | 4.98%     | 11.52%         | 3.94%   | 4.51%        |
| Debt/Equity                                                      | 1.46    | 0.87       | 0.69      | NA             | 0.86    | 1.43         |
| Cash Flow (\$/share)                                             | 6.42    | 2.37       | 6.85      | 3.10           | 0.51    | 2.70         |
| Growth Score                                                     | C       | -          | -         | B              | D       | C            |
| Historical EPS Growth (3-5 Years)                                | -0.48%  | 0.54%      | 9.69%     | NA             | NA      | 0.98%        |
| Projected EPS Growth (F1/F0)                                     | 12.39%  | 0.00%      | 12.80%    | -21.05%        | -6.86%  | 12.28%       |
| Current Cash Flow Growth                                         | 5.00%   | 2.75%      | 4.88%     | 94.31%         | -19.04% | 7.95%        |
| Historical Cash Flow Growth (3-5 Years)                          | 2.41%   | 0.13%      | 8.07%     | -2.51%         | -19.08% | 2.83%        |
| Current Ratio                                                    | 0.88    | 0.85       | 1.38      | NA             | 0.65    | 0.78         |
| Debt/Capital                                                     | 54.17%  | 46.60%     | 41.57%    | NA             | 46.31%  | 58.81%       |
| Net Margin                                                       | 10.21%  | 8.38%      | 10.44%    | NA             | NA      | 8.51%        |
| Return on Equity                                                 | 16.12%  | 12.02%     | 15.37%    | NA             | NA      | 12.02%       |
| Sales/Assets                                                     | 0.37    | 0.44       | 0.51      | NA             | NA      | 0.38         |
| Projected Sales Growth (F1/F0)                                   | 2.54%   | 0.62%      | 5.98%     | -1.64%         | 11.23%  | 6.86%        |
| Momentum Score                                                   | B       | -          | -         | D              | C       | A            |
| Daily Price Change                                               | 0.33%   | 0.00%      | 1.38%     | 0.00%          | 0.17%   | 1.06%        |
| 1-Week Price Change                                              | -1.96%  | 0.00%      | -0.02%    | -2.70%         | 2.67%   | -0.34%       |
| 4-Week Price Change                                              | 0.93%   | 1.20%      | 0.04%     | -5.03%         | 4.19%   | 6.31%        |
| 12-Week Price Change                                             | 5.96%   | 15.24%     | 8.96%     | 18.09%         | 18.69%  | 19.20%       |
| 52-Week Price Change                                             | -9.26%  | 6.73%      | 7.48%     | -21.09%        | -8.37%  | 4.39%        |
| 20-Day Average Volume (Shares)                                   | 982,170 | 66,133     | 1,962,643 | 67,852         | 17,645  | 1,005,413    |
| EPS F1 Estimate 1-Week Change                                    | 0.08%   | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 2.05%        |
| EPS F1 Estimate 4-Week Change                                    | 0.58%   | 0.00%      | 0.26%     | -1.32%         | 0.00%   | 0.18%        |
| EPS F1 Estimate 12-Week Change                                   | 3.45%   | 1.01%      | 1.63%     | 1.01%          | 2.15%   | -3.74%       |
| EPS Q1 Estimate Monthly Change                                   | 0.00%   | 0.00%      | 0.05%     | NA             | NA      | 0.00%        |

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

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

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

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## Disclosures

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## 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.