

## Brown & Brown Inc.(BRO)

**\$44.64** (As of 09/11/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 10/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

### Summary

Shares of Brown & Brown have outperformed its industry in a year's time. The company's compelling portfolio with an impressive growth trajectory driven by organic and inorganic initiatives bode well. Buyouts and collaborations enhanced its existing capabilities and extended its geographic foothold. Strategic efforts continue to drive commission and fees. Solid capital position, backed by strong operational environment, place the company well for long-term growth. Its sturdy performance has been driving cash flow, enabling it to deploy capital in shareholder-friendly moves via dividend hikes and share buybacks. It boasts strong balance sheet backed by solid cash position. However, escalating expenses are likely to put a stain on margin expansion. Poor return on equity implies inefficient utilization of shareholders' funds.

### Price, Consensus & Surprise

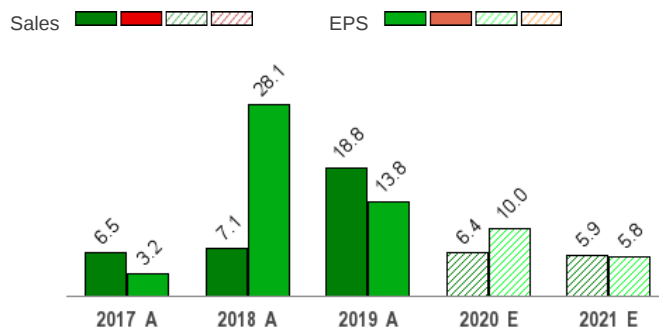


Source: Zacks Investment Research

### Data Overview

|                                |                         |
|--------------------------------|-------------------------|
| 52-Week High-Low               | \$48.69 - \$30.70       |
| 20-Day Average Volume (Shares) | 784,304                 |
| Market Cap                     | \$12.6 B                |
| Year-To-Date Price Change      | 13.1%                   |
| Beta                           | 0.68                    |
| Dividend / Dividend Yield      | \$0.34 / 0.8%           |
| Industry                       | Insurance - Brokerage   |
| Zacks Industry Rank            | Top 23% (58 out of 251) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 17.2%      |
| Last Sales Surprise           | 4.2%       |
| EPS F1 Estimate 4-Week Change | 0.7%       |
| Expected Report Date          | 10/26/2020 |
| Earnings ESP                  | -5.2%      |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 725 E | 630 E | 680 E | 644 E | 2,695 E |
| 2020 | 699 A | 599 A | 643 E | 601 E | 2,546 E |
| 2019 | 619 A | 575 A | 619 A | 579 A | 2,392 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.51 E | \$0.34 E | \$0.45 E | \$0.33 E | \$1.63 E |
| 2020 | \$0.51 A | \$0.34 A | \$0.42 E | \$0.27 E | \$1.54 E |
| 2019 | \$0.41 A | \$0.32 A | \$0.39 A | \$0.28 A | \$1.40 A |

\*Quarterly figures may not add up to annual.

|         |      |
|---------|------|
| P/E TTM | 29.4 |
| P/E F1  | 29.0 |
| PEG F1  | 2.9  |
| P/S TTM | 5.1  |

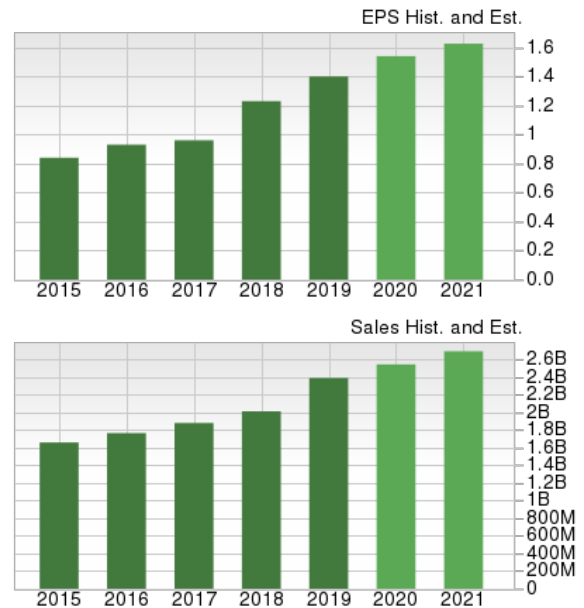
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/11/2020. The reports text is as of 09/14/2020.

## Overview

Headquartered in Daytona Beach, FL and founded in 1939, Brown & Brown, Inc. markets and sells insurance products and services primarily in the United States, as well as in London, Bermuda, and the Cayman Islands.

The company reports through four segments:

- **The Retail segment (51.8% of 2019 commissions and fees)** provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers. The categories of insurance it principally sells include commercial packages, group medical, workers' compensation, property risk and general liability. It also sells and services group and individual life, accident, disability, health, hospitalization, medical, dental and other ancillary insurance products. Approximately 85.9% of the Retail Segment's commissions and fees revenues are commission based.
- **The National Programs segment (24.6%)** provides professional liability and related package products for certain professionals through nationwide networks of independent agents. The segment offers more than 51 programs, which can be grouped into five broad categories namely Professional Programs, Personal Lines Programs, Commercial Programs, Public Entity-Related Programs and the National Flood Program.
- **The Wholesale Brokerage segment (14.2%)** markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers. The Wholesale Brokerage Segment offices represent various U.S. and U.K. surplus lines insurance companies. Additionally, certain offices are also Lloyd's of London correspondents.
- **The Services segment (9.4%)** markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers. It offers third-party claims administration and medical utilization management services in the workers' compensation and all-lines liability arenas, Medicare Set-aside, Social Security disability, Medicare benefits advocacy and claims adjusting services.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Shares of Brown & Brown have gained 24.6% in a year's time compared with the industry's growth of 6.9%. Solid fundamentals should drive the stock further.
- ▲ Brown & Brown's impressive growth is driven by organic and inorganic means across all segments. Also, strategic acquisitions and mergers help it spread its operations. In over a span of a more than two decades, the company has acquired about 500 insurance intermediary operations. During the six months ended Jun 30, 2020, it closed 10 transactions with estimated annual revenues of \$85 million. The company has already closed a few deals in the third quarter and expects to close more deals in the second half of 2020. Brown & Brown intends to make consistent investments in boosting organic growth and margin expansion. Solid earnings have allowed the company to expand its capabilities with the buyouts extending the company's geographic footprint. However, the company does not expect to attain the level of organic revenue growth achieved in 2019 through the remainder of 2020 due to the impact of the COVID-19 pandemic.
- ▲ Revenues in the Retail segment have contributed a lion's share to the total revenues of the company. The metric in this segment have been increasing over the past few years driven by higher core commissions and fees, profit-sharing contingent commissions, guaranteed supplemental commissions and investment income. The momentum continued through the first half with revenues rising 8.6% primarily driven by acquisition activity and higher profit-sharing contingent commissions. Organic revenues grew 2.6% in the first half of 2020. Increased new business, higher customer retention and increasing premium rates across most lines of business will continue to drive the momentum going forward.

Further, revenues in the Wholesale Brokerage segment grew at a three-year CAGR (2016 – 2019) of 8.5% driven by higher core commissions and fees, profit-sharing contingent commissions, guaranteed supplemental commissions and investment income. Revenues grew 9.8% in the first half of 2020 retaining the growth momentum. Total revenues grew faster than organic revenues due to new acquisitions and higher contingent commissions. Net new business, increase in exposure units, increased rates seen across most lines of business, investment income are likely to drive the momentum going forward.
- ▲ Strategic efforts drove commission and fees, which witnessed a four-year CAGR of 9.5% during 2015-2019. Commission and fees increased 8.8% year over year to \$1.3 billion in the first half of 2020 driven by new and renewal business, acquisitions. Cash received for profit-sharing contingent commissions, core commissions and fees from acquisitions that have no comparable revenues, net new and renewal business, commissions, and fees from businesses or books of business will continue to drive commission and fees in the near term.
- ▲ Backed by a sustained operational performance, Brown & Brown has maintained a solid capital position. The company remains well positioned with its capital structure and has been able to access sufficient capital via its \$800 million available cash to fund growth. Moreover, consistent operational results have helped Brown & Brown generate solid cash flowsto be deployed in strategic initiatives as well as for shareholder-friendly moves. In the second quarter, cash flow from operations as a percentage of revenues increased to levels higher than normal, primarily due to the Cares Act, which enables companies to pay their first quarter federal taxes in July. However, the company expects its cash flow from operations as a percentage of revenues for the third quarter to decrease from historical conversion levels.
- ▲ The strong capital and liquidity position enables Brown & Brown to enhance shareholder value via dividend increases and share buybacks. With respect to dividend payments, the company has increased dividend for the last 26 years. Dividend currently yields 0.8% to the company. On May 2019, the company approved an additional repurchase authorization amount of \$372.5 million to bring the total available share repurchase authorization to approximately \$500.0 million. Between January 2014 and June 2020, the company repurchased shares of \$537.7 million.
- ▲ Brown & Brown has a strong balance sheet by virtue of its solid cash position. Though the company has current portion of long-term debt amounting to \$62.5 million as of Jun 30, 2020, cash and cash equivalents came in at \$623.2 million for the same period. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations. As of Jun 30, 2020, the company had access to \$600.0 million of additional borrowings under the revolving credit facility. Including the expansion options under all existing credit agreements, the company had access to up to \$1.3 billion of incremental borrowing capacity as of Jun 30, 2020. Additionally, as of Jun 30, 2020, the company's total debt capital of 31.3% was lower than 31.7% at 2019-end. Further, the company's times interest earned of 10.6 at second quarter end was good when compared with the 2019-end figure of 9.3, implying that its earnings are sufficient to cover interest obligations.

Brown & Brown boasts impressive growth driven by organic means and impressive inorganic story. Strategic efforts continue to drive commission and fees. Sturdy performance is boosting cash flow.

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## Reasons To Sell:

- ▼ Brown & Brown has been experiencing rising expenses due to higher employee compensation and benefits, amortization, change in estimated acquisition earn-out payables as well as other operating expenses and interest expense. Total expenses witnessed a CAGR of 10.4% in the past four years (2015-2019). In the first half of 2020, expenses increased 4.3% year over year to \$962.6 million. Such expenses continue to weigh on the bottom line.

In the second quarter, contingent and non-cash stock compensation increased from the prior year. For the second half of 2020, the company expects minor differences for both the items from the year-ago period. Amortization expense is estimated to be \$106.5 million for 2020.

- ▼ Return on equity, a profitability measure, reflecting how effectively the company is utilizing its shareholders fund is lower than the industry average. The company's return on equity is 12.5% while that of the industry is 27.8%.
- ▼ Organic revenues for the Services segment decreased 12.9% year over year in the first half of 2020. The reasons behind the decline were Social Security Advocacy businesses, driven by lower claims volume, terminated customer contract, lower claims for many of the businesses related to the pandemic and related weather-related claims. The company also expects organic revenues for the Services segment to decline 5% to 10% in the second half of the year from the year-ago period.
- ▼ Brown & Brown has expanded its operations internationally to United Kingdom, Hamilton, Bermuda and George Town, Cayman Islands. Its operations are therefore subject to changes in trade regulations, profit repatriation regulations, foreign currency exchange rate fluctuations, and the economic condition of the country.

Brown & Brown's rising expenses attributable to higher compensation and operating expenses weighing on margin expansion and foreign currency exchange rate fluctuations remain a concern.

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## Last Earnings Report

### Brown & Brown Q2 Earnings Beat, Revenues Improve Y/Y

Brown & Brown, Inc. second-quarter 2020 adjusted earnings of 34 cents per share beat the Zacks Consensus Estimate by 17.2%. The bottom line also improved 6.3% year over year.

Higher commissions and fees have driven the company's results, partly offset by increased expenses.

#### Q2 in Details

Total revenues of \$599 million outpaced both the Zacks Consensus Estimate as well as year-ago figure by 4.2%. The upside can primarily be attributed to improved commission and fees, and high organic growth.

Commissions and fees grew 4.4% year over year to \$598.2 million. Organic revenues inched up 0.5% to \$547.8 million in the quarter under review.

Investment income plunged 80% year over year to \$3 million.

EBITDAC was \$176.7 million, up 4.8% year over year. EBITDAC margin expanded 20 basis points (bps) year over year to 29.5%.

Total expenses increased 3.9% to \$469.4 million courtesy of a rise in employee compensation and benefits, amortization and depreciation.

#### Financial Update

Brown & Brown exited second-quarter 2020 with cash and cash equivalents of \$623.2 million, up 14.9% from 2019-end level.

Long-term debt of \$1.6 billion as of Jun 30, 2020 was up 4.4% from 2019 end.

Net cash provided by operating activities in the first half of 2020 was \$416.7 million, up 36.3% year over year.

#### Dividend Update

On Jul 22, Brown & Brown declared cash dividend of 8.5 cents per share. The dividend will be paid on Aug 12, 2020 to shareholders of record as of Aug 5.

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Quarter Ending 06/2020

| Report Date      | Jul 27, 2020 |
|------------------|--------------|
| Sales Surprise   | 4.20%        |
| EPS Surprise     | 17.24%       |
| Quarterly EPS    | 0.34         |
| Annual EPS (TTM) | 1.52         |

## Recent News

### Brown & Brown Unit's Buyout Consolidates Tennessee Presence – Sep 11, 2020

Brown & Brown announced that Brown & Brown of Tennessee, Inc. has bought Frank E. Neal & Co. Agency. Frank E. Neal & Co. specializes in providing surety bonds and commercial insurance solutions within the construction industry. The addition of Frank E. Neal & Co. will enhance the acquirer's product portfolio and strengthen its presence in Tennessee.

### Brown & Brown Inks Deal to Acquire VAS-Affiliated Companies – Sep 2, 2020

Brown & Brown has agreed to acquire Vehicle Administrative Services, LP, SafeRide Motor Club, Inc. and affiliates (collectively, "VAS"). The acquisition, following the fulfillment of certain closing conditions, is expected to be completed in October 2020. However, the financial terms of the transaction were not made public. With this acquisition, Brown & Brown will leverage the expertise of VAS in customer service, compliance and development of new protection products, which is similar with the customer first values of Brown & Brown Dealer Services. Thus, this partnership will enable Brown & Brown to cater to collective customers with innovative solutions.

### Brown & Brown's Subsidiary Buys Assets of Amity Insurance– Aug 17, 2020

Brown & Brown subsidiary Brown & Brown of Massachusetts, Inc. has acquired considerably all Amity Insurance Agency's assets. The acquisition of Amity Insurance will enable the acquirer to add more high-quality leaders and teammates to its growing operations in New England. Brown & Brown will leverage Amity's competence in combining creativity and risk management needs of its customers.

### Brown & Brown's Unit Acquires Assets of Buiten & Associates – Aug 13, 2020

Brown & Brown subsidiary Brown & Brown of Michigan, Inc. has acquired considerably all Buiten & Associates' assets. Buiten & Associates' team has an impressive leadership quality and strong professional ethics. It is one of the premier independent agencies in Michigan. Thus, its addition will help Brown & Brown to strengthen its presence in Michigan.

### Brown & Brown Inks Deal to Acquire Assets of HAUSER - Aug 10, 2020

Brown & Brown has agreed to acquire the assets of HAUSER in a bid to aid its collective customers. The acquisition, following the fulfillment of certain closing conditions, is expected to be completed in September 2020.

## Valuation

Brown & Brown's shares are up 13.1% and 24.6% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 0.2% and 17% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.9% and down 11.9%, respectively.

The S&P 500 index are up 3.8% in the year-to-date period and 12% in the past year.

The stock is currently trading at 27.89x forward 12-month earnings, which compares to 20.46x for the Zacks sub-industry, 16.18x for the Zacks sector and 22.15x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.16x and as low as 15.96x, with a 5-year median of 22.47x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 29.37x forward 12-month earnings.

The table below shows summary valuation data for BRO

| Valuation Multiples - BRO |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 27.89 | 20.46        | 16.18  | 22.15   |
|                           | 5-Year High   | 31.16 | 21.01        | 16.72  | 23.44   |
|                           | 5-Year Low    | 15.96 | 14.5         | 11.6   | 15.26   |
|                           | 5-Year Median | 22.47 | 17.16        | 14.27  | 17.63   |
| P/S F12M                  | Current       | 4.76  | 3.25         | 6.44   | 4.08    |
|                           | 5-Year High   | 5.28  | 3.33         | 6.67   | 4.29    |
|                           | 5-Year Low    | 2.32  | 1.83         | 4.97   | 3.11    |
|                           | 5-Year Median | 3.56  | 2.58         | 6.07   | 3.66    |
| P/B TTM                   | Current       | 3.52  | 5.97         | 2.51   | 5.75    |
|                           | 5-Year High   | 4.07  | 6.85         | 2.91   | 6.17    |
|                           | 5-Year Low    | 1.87  | 3.33         | 1.72   | 3.75    |
|                           | 5-Year Median | 2.72  | 4.66         | 2.54   | 4.84    |

As of 09/11/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 23% (58 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                                   | Rec        | Rank |
|----------------------------------------------------|------------|------|
| eHealth, Inc. (EHTH)                               | Outperform | 1    |
| RLI Corp. (RLI)                                    | Outperform | 1    |
| Arthur J. GallagherCo. (AJG)                       | Neutral    | 3    |
| Aon plc (AON)                                      | Neutral    | 3    |
| Erie Indemnity Company (ERIE)                      | Neutral    | 3    |
| MarshMcLennan Companies, Inc. (MMC)                | Neutral    | 3    |
| Robert Half International Inc. (RHI)               | Neutral    | 3    |
| Willis Towers Watson Public Limited Company (WLTW) | Neutral    | 3    |

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

| Industry Comparison Industry: Insurance - Brokerage |         |            |           | Industry Peers |           |           |
|-----------------------------------------------------|---------|------------|-----------|----------------|-----------|-----------|
|                                                     | BRO     | X Industry | S&P 500   | AJG            | AON       | MMC       |
| Zacks Recommendation (Long Term)                    | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                             | 2       | -          | -         | 3              | 3         | 3         |
| VGM Score                                           | C       | -          | -         | B              | C         | C         |
| Market Cap                                          | 12.62 B | 1.59 B     | 23.09 B   | 19.49 B        | 46.69 B   | 58.65 B   |
| # of Analysts                                       | 5       | 6          | 14        | 7              | 7         | 8         |
| Dividend Yield                                      | 0.76%   | 0.82%      | 1.65%     | 1.77%          | 0.87%     | 1.61%     |
| Value Score                                         | D       | -          | -         | C              | D         | D         |
| Cash/Price                                          | 0.08    | 0.14       | 0.07      | 0.15           | 0.03      | 0.03      |
| EV/EBITDA                                           | 18.20   | 17.02      | 13.07     | 16.25          | 19.15     | 19.09     |
| PEG F1                                              | 2.94    | 2.81       | 2.93      | 2.81           | NA        | 7.90      |
| P/B                                                 | 3.52    | 3.03       | 3.19      | 3.52           | 12.63     | 6.99      |
| P/CF                                                | 23.72   | 17.19      | 12.63     | 16.26          | 16.88     | 19.29     |
| P/E F1                                              | 29.37   | 23.60      | 21.25     | 23.60          | 20.74     | 24.08     |
| P/S TTM                                             | 5.06    | 2.83       | 2.44      | 2.79           | 4.25      | 3.44      |
| Earnings Yield                                      | 3.45%   | 4.23%      | 4.52%     | 4.23%          | 4.82%     | 4.15%     |
| Debt/Equity                                         | 0.44    | 0.19       | 0.70      | 0.78           | 1.96      | 1.43      |
| Cash Flow (\$/share)                                | 1.88    | 2.99       | 6.93      | 6.26           | 11.94     | 6.00      |
| Growth Score                                        | B       | -          | -         | A              | B         | A         |
| Historical EPS Growth (3-5 Years)                   | 15.15%  | 13.11%     | 10.41%    | 11.03%         | 11.54%    | 11.79%    |
| Projected EPS Growth (F1/F0)                        | 10.00%  | 4.94%      | -4.75%    | 18.16%         | 6.00%     | 3.17%     |
| Current Cash Flow Growth                            | 15.55%  | 2.81%      | 5.26%     | 9.99%          | -0.54%    | 11.40%    |
| Historical Cash Flow Growth (3-5 Years)             | 10.82%  | 13.04%     | 8.49%     | 13.27%         | 3.75%     | 9.25%     |
| Current Ratio                                       | 0.98    | 2.08       | 1.35      | 1.09           | 2.08      | 1.37      |
| Debt/Capital                                        | 30.42%  | 15.47%     | 42.95%    | 43.81%         | 66.18%    | 58.82%    |
| Net Margin                                          | 17.69%  | 10.68%     | 10.25%    | 10.35%         | 16.08%    | 11.83%    |
| Return on Equity                                    | 12.54%  | 13.50%     | 14.59%    | 16.01%         | 64.99%    | 31.82%    |
| Sales/Assets                                        | 0.32    | 0.35       | 0.50      | 0.35           | 0.37      | 0.54      |
| Projected Sales Growth (F1/F0)                      | 6.44%   | 0.00%      | -1.42%    | -2.57%         | -0.98%    | 1.28%     |
| Momentum Score                                      | A       | -          | -         | B              | C         | F         |
| Daily Price Change                                  | -0.49%  | 0.00%      | 0.39%     | -0.14%         | -0.25%    | 0.15%     |
| 1-Week Price Change                                 | -2.08%  | 0.00%      | -1.28%    | -1.30%         | 1.31%     | 1.24%     |
| 4-Week Price Change                                 | -2.58%  | -1.17%     | -1.42%    | -5.04%         | 3.53%     | -1.17%    |
| 12-Week Price Change                                | 6.64%   | 5.10%      | 4.86%     | 2.64%          | 5.52%     | 6.79%     |
| 52-Week Price Change                                | 24.14%  | 6.04%      | -1.17%    | 15.92%         | 6.21%     | 16.15%    |
| 20-Day Average Volume (Shares)                      | 784,304 | 47,473     | 1,834,261 | 791,787        | 1,400,297 | 1,616,952 |
| EPS F1 Estimate 1-Week Change                       | 0.65%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                       | 0.65%   | 0.00%      | 0.00%     | 1.51%          | 0.00%     | -0.44%    |
| EPS F1 Estimate 12-Week Change                      | 7.69%   | 2.99%      | 4.05%     | 9.50%          | -0.23%    | 4.03%     |
| EPS Q1 Estimate Monthly Change                      | 2.43%   | 0.00%      | 0.00%     | 1.03%          | 0.00%     | -1.19%    |

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    | D |
| Growth Score   | B |
| Momentum Score | A |
| VGM Score      | C |

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 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.