

## Conagra Brands (CAG)

**\$34.43** (As of 02/11/21)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/25/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

### Summary

Conagra's shares have underperformed the industry in the past three months. We note that the company is struggling with sluggish trends in the Foodservice unit, thanks to soft restaurant traffic, amid the coronavirus pandemic. Also, input cost inflation and adverse impacts from divested businesses have been a drag. Nevertheless, the company's retail business is doing well, backed by rising at-home consumption. Such trends have boosted the company's organic sales during second-quarter fiscal 2021. Markedly, the retail business saw sales growth in categories such as staples, frozen and snacks. Apart from this, Conagra has been benefiting from solid innovations and synergies from the Pinnacle Foods' buyout. Additionally, management provided an optimistic outlook for the third quarter, while reiterating its view for fiscal 2022.

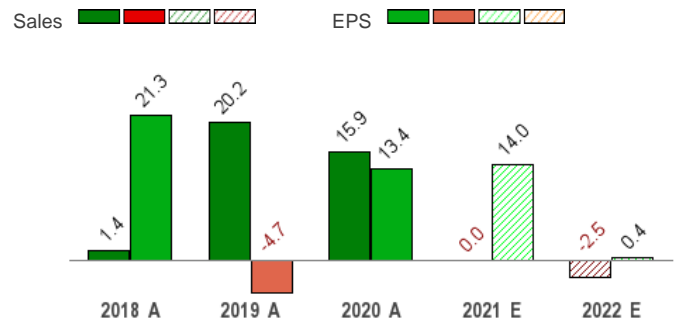
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$39.34 - \$22.83</b>
20-Day Average Volume (Shares)	<b>3,635,277</b>
Market Cap	<b>\$16.8 B</b>
Year-To-Date Price Change	<b>-5.1%</b>
Beta	<b>0.88</b>
Dividend / Dividend Yield	<b>\$1.10 / 3.2%</b>
Industry	<b>Food - Miscellaneous</b>
Zacks Industry Rank	<b>Bottom 22% (197 out of 253)</b>

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



Last EPS Surprise	<b>11.0%</b>
Last Sales Surprise	<b>0.1%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>03/30/2021</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>12.6</b>
P/E F1	<b>13.2</b>
PEG F1	<b>1.9</b>
P/S TTM	<b>1.5</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,508 E	2,896 E	2,698 E	2,719 E	10,784 E
2021	2,679 A	2,995 A	2,713 E	2,674 E	11,056 E
2020	2,391 A	2,821 A	2,555 A	3,288 A	11,054 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.60 E	\$0.77 E	\$0.64 E	\$0.61 E	\$2.61 E
2021	\$0.70 A	\$0.81 A	\$0.58 E	\$0.53 E	\$2.60 E
2020	\$0.43 A	\$0.63 A	\$0.47 A	\$0.75 A	\$2.28 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 02/11/2021. The report's text and the analyst-provided price target are as of 02/12/2021.

## Overview

Chicago-based Conagra Brands, Inc. (CAG) is one of the leading branded food company of North America. The company offers premium edible products, with refined focus on innovation.

The company maintains a highly dynamic product portfolio and incorporates alterations within it as per the preference pattern of the end-users. Some iconic brands of the company are Reddi-Wip, Hunt's, Healthy Choice, Frontera, Slim Jim, Blake's and Marie Callender.

Conagra currently reports results in the following segments:

**Grocery & Snacks** (42.9% of second-quarter fiscal 2021 sales): This unit includes branded, shelf stable food products sold in several retail channels in the United States.

**Refrigerated & Frozen** (41.7% of second-quarter fiscal 2021 sales): This comprises branded, temperature-controlled food products sold in many retail channels in the United States.

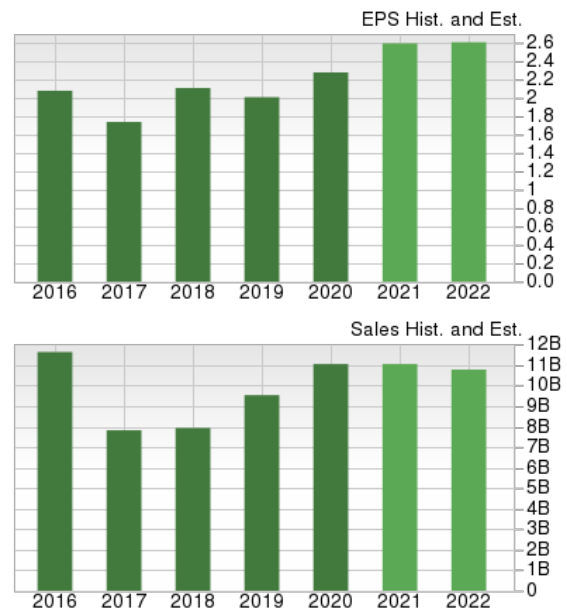
**International** (8.3% of second-quarter fiscal 2021 sales): The segment takes care of branded food products, in various temperature states, offered to various retail and foodservice channels outside the United States.

**Foodservice** (7.1% of second-quarter fiscal 2021 sales): The segment includes branded and customized food products, such as meals, entrees, sauces and a wide assortment of custom-made culinary products packaged for sale to restaurants and other foodservice setups in the United States.

Conagra acquired Pinnacle Foods in October 2018. Further, the company took over Sandwich Bros. in February 2018, which forms part of Conagra's Refrigerated and Frozen segment.

In October 2017, Conagra acquired Angie's Artisan Treats, LLC, which is a part of its Grocery & Snacks business. This segment also includes Thanasi Foods and BIGS LLC, which were acquired in April 2017.

In September 2016, Conagra bought the assets of Frontera Foods, Inc. and Red Fork LLC.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Solid Q2 Results & Q3 View:** Conagra has been witnessing rising demand amid coronavirus pandemic-led increased at-home dining trends. These trends also drove Conagra in second-quarter fiscal 2021, with the top and the bottom lines surging year over year and beating the Zacks Consensus Estimate. Results were backed by increased organic sales, which in turn benefited from higher at-home consumption driving Conagra's retail business. Notably, the company's retail business saw sales growth in areas such as staples, frozen and snacks categories. Strength in retail business also helped the company offset softness in the Foodservice segment, wherein sales fell due to COVID-19. Markedly, during the quarter, the company's household penetration increased 14 basis points (bps) year on year, while category share improved 26 bps. Additionally, the company is gaining from growth in e-commerce sales. Management highlighted that e-commerce sales have rapidly accelerated since the onset of the pandemic. This along with prudent product innovation and effective portfolio management efforts have been acting as upsides for the company.

Brand modernizing moves, stronger innovation and meaningful buyouts are driving Conagra's performance. Coronavirus-led increased demand is also aiding the company's retail business.

The company continued to see a considerable increase in demand in the retail business in the third quarter of fiscal 2021 (till Jan 7, 2021). Considering such factors and assuming a smooth supply chain, management expects organic sales growth of 6-8% in the third quarter of fiscal 2021. Adjusted operating margin is likely to be 16-16.5%, while adjusted earnings per share (EPS) are envisioned between 56 cents and 60 cents. Apart from this, management reiterated its targets for fiscal 2022. Organic net sales are anticipated to grow 1-2% (three-year CAGR ending fiscal 2022). Adjusted operating margin is expected in a range of 18-19% and adjusted EPS for fiscal 2022 is likely to be between \$2.66 and \$2.76.

- ▲ **Efforts to Boost Frozen & Snacks Categories:** Conagra has been focused on boosting the Frozen and Snacks businesses. In the second quarter of fiscal 2021, the company's retail sales gained from growth in snacks, frozen and staples sales. During the quarter, total Conagra Frozen retail sales improved 8.3%, with strength in each of its four main frozen categories. Markedly, frozen vegetables did particularly well during the quarter, backed by higher online capacity. Additionally, frozen single-serve meals also performed well. Frozen has indeed picked up more pace in the current situation, wherein the pandemic has caused consumers to stock up and eat at home. Furthermore, during the second quarter, the company's Grocery & Snacks business sales gained 12.5%. The company's snacks business continued to gain from higher volumes stemming from rising at-home consumption and customer inventory replenishment. Management expects at-home eating trends to stay high for a while, and is well positioned to tap opportunities related to it. Conagra is on track with a range of innovation and brand-building efforts for exploring growth prospects in its frozen and snacks businesses. Such efforts are likely to yield results in the forthcoming periods.

- ▲ **Financial Profile:** Conagra's senior long-term debt (excluding current installments) of \$8,279.7 million declined nearly 7% on a sequential basis at the end of the second quarter of fiscal 2021 — Nov 29, 2020. Notably, Conagra is on track with its de-leveraging goals and lowered its total gross debt by more than \$2.3 billion since it concluded Pinnacle Foods' buyout through the end of the second quarter. As of the end of the second quarter of fiscal 2021, the company's net debt to last 12 month's adjusted EBITDA ratio was 3.6x. Markedly, the company was able to achieve its preset target of Net Leverage Ratio of 3.5x-3.6x ahead of schedule.

Additionally, at a juncture where several companies had to suspend dividend payments to preserve financial flexibility amid the pandemic, Conagra announced a dividend hike during the second quarter. It will now pay out a quarterly dividend of 27.50 cents per share, up 29% from the prior rate. This hike is effective for the third quarter. Notably, the new rate takes the company's annualized dividend to \$1.10 per share. This clearly speaks of the company's healthy financial position. Notably, Conagra has a dividend payout of 38%, dividend yield of 3% and free cash flow yield of 8.9%.

- ▲ **Synergies from Pinnacle Foods' Buyout, Focus on Innovation:** Conagra acquired Pinnacle Foods in October 2018. The combination of the two companies is appropriate, given the increasing demand for frozen foods and snacks. The consolidation of these food companies has helped to create a robust portfolio of leading, iconic and on-trend brands. Further, the move is aiding to speed up innovation and exploit the long-term benefits in the frozen foods space. Notably, management has been boosting some of the Pinnacle Foods business banners, especially the Gardein brand, which holds a solid position in the plant-based meat-alternatives food space. Markedly cost synergies from the Pinnacle Foods' buyout have been supporting the company's gross margin performance. Conagra has generated total synergies of \$246 million from Pinnacle Foods' buyout, as of the end of the second quarter of 2021. The company earlier stated that it expects synergies of roughly \$305 million through fiscal 2022.

Conagra has been strongly committed toward undertaking innovation, which is clearly working well for the company. Even amid the pandemic, the company remained focused on carrying out innovation for its customers as well as consumers. In fact, the company is witnessing favorable consumer response for its new products. Management had earlier stated that its robust focus on Conagra Way playbook has helped it constantly surpass its target of generating 15% of total retail sales (each year) from products introduced within the past three years. Certainly, the company's growth is rooted in its innovation platform, which is helping it aid category performance.

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## Reasons To Sell:

- ▼ **Soft Foodservice Segment:** While coronavirus-led increased at-home trends have boosted Conagra's retail business, the same has been dealing a blow to its Foodservice segment for a while now. Incidentally, quarterly sales in the segment declined 23.1% year over year to \$212.1 million due to Sold Businesses impact and lower organic sales. Organic sales fell 21.4%, with volumes down 25.3% owing to reduced restaurant traffic amid the pandemic. Lower sales and elevated input costs also dented the segment operating profit, which tumbled 41.6%. Further, in the third quarter of fiscal 2021 (till Jan 7), demand for foodservice products continued to be lower than the pre-pandemic level. Such headwinds along with adverse impacts of divested businesses and rising input costs have been weighing on the stock. We note that shares of the company have declined 4.5% in the past three months against the industry's rise of 3.5%
- ▼ **Escalated Cost Concerns:** During the second quarter of fiscal 2021, though the gross margin improved year over year, it was hurt by costs associated with COVID-19, input cost inflation, as well as increased transportation costs. Notably cost of goods sold inflation was around 2.8% in the second quarter while the same is expected to be nearly 3.5% in the third quarter. Persistence of COVID-led costs as well as input cost inflation can pose threats to margins.
- ▼ **Currency Volatility:** Conagra's international presence keeps the company exposed to the risk of adverse currency fluctuations. In second-quarter fiscal 2021, currency translations weighed on sales by 0.2%. In the International segment, net sales included a 2.5% adverse impact from adverse currency fluctuations. Volatile currency movements remain a threat to Conagra's performance.
- ▼ **Divestiture Impacts:** During the second quarter of fiscal 2021, Conagra's sales growth included a 1.7% headwind from divestiture of Sold Businesses. The Sold Businesses include the divested businesses of Direct Store Delivery (DSD) snacks, Lender's Bagel business, along with the exited private-label peanut butter business. Nonetheless, these impacts are expected to lessen sequentially, as and when the company completes a year of closing them.

Conagra continues to struggle with sluggish Foodservice business. Also, high COVID-19 related expenses and rising input costs are concerns.

## Last Earnings Report

### Conagra Q2 Earnings Surpass Estimates, Sales Up Y/Y

Conagra posted robust second-quarter fiscal 2021 results, with the top and the bottom line surging year over year and beating the Zacks Consensus Estimate. Results were backed by increased organic sales, which benefited from higher at-home consumption, driving Conagra's retail business. This also helped the company offset softness in the Foodservice segment.

Management is encouraged with continued growth of its retail business and has therefore provided an optimistic view for the third quarter. However, Foodservice business is expected to remain sluggish, as outdoor dining is yet to pick up pace.

Quarter Ending	11/2020
Report Date	Jan 07, 2021
Sales Surprise	0.12%
EPS Surprise	10.96%
Quarterly EPS	0.81
Annual EPS (TTM)	2.73

### Q2 in Detail

Conagra's quarterly adjusted earnings came in at 81 cents, which surpassed the Zacks Consensus Estimate of 73 cents. Moreover, the figure jumped 28.6% from the year-ago quarter's figure. The year-over-year upside can be attributed to increased adjusted net income.

Conagra generated net sales of \$2,995.2 million, which advanced 6.2% year over year and beat the Zacks Consensus Estimate of \$2,992 million. The year-over-year sales growth was backed by higher organic sales, partly offset by adverse currency movements and the divestiture of Direct Store Delivery (DSD) snacks business, Lender's bagel business, H.K. Anderson business as well as the exit of the private label peanut butter business. The divestitures are collectively referred to as the Sold Businesses.

Organic sales increased 8.1% on higher volumes and favorable price/mix. Volumes were aided by elevated at-home consumption amid the coronavirus pandemic, which in turn boosted Conagra's retail business but hurt the Foodservice segment. Also, price/mix was favorable in the quarter, driven by positive sales mix.

Adjusted gross profit jumped 11.4% to \$895 million, while adjusted gross margin expanded 139 basis points to 29.9%. This can be attributed to higher sales, strong productivity related to supply chain, favorable margin mix, fixed cost leverage and cost synergies from Pinnacle Foods' buyout. These were somewhat countered by costs associated with COVID-19, input cost inflation, increased transportation costs, adverse impacts of unfavorable currency rates as well as profit that was lost from Sold Businesses.

Adjusted EBITDA improved 16.7% to \$712 million, backed by increase in adjusted gross profit and lower adjusted selling, general and administrative expenses.

### Segmental Details

**Grocery & Snacks:** Quarterly sales in the segment came in at \$1,285.3 million, which increased 12.5% year over year owing to higher organic sales. The figure was partially hurt by the Sold Businesses. Organic sales increased 15.3% with volumes and price/mix up 13.6% and 1.7%, respectively. Volumes rose owing to consumers' higher at-home consumption and customer inventory replenishment. Management highlighted that several of the company's grocery and snacks brands experienced strong sales growth.

**Refrigerated & Frozen:** Net sales advanced 6.8% to \$1,248 million due to the same factor that drove the Grocery & Snacks segment's sales. Organic sales rose 7.8%, with volumes up 6.4% and price/mix growth of 1.4%. Higher at home consumption boosted volumes, while lower promotion levels aided the rise in price/mix. Several brands in the segment experienced strong organic sales growth.

**International:** Net sales rose 6.6% to \$249.8 million on account of higher organic sales, offset by unfavorable currency movements. On an organic basis, net sales rose 9.1%, as volumes increased 6.4% and price/mix was up 2.7%. This was backed by higher demand amid the pandemic. In particular, strong growth was witnessed in Canada and Mexico.

**Foodservice:** Quarterly sales in the segment declined 23.1% year over year to \$212.1 million due to Sold Businesses impact and lower organic sales. Organic sales fell 21.4%, with volumes down 25.3% but price/mix up 3.9%. Volumes were hurt by reduced restaurant traffic amid the pandemic.

### Other Updates

Conagra exited the quarter with cash and cash equivalents of \$68 million, senior long-term debt (excluding current portion) of \$8,279.7 million and total stockholders' equity of \$8,469.5 million. During the 26-weeks ended Nov 29, the company generated net cash of \$541.4 million from operating activities.

During the second quarter, Conagra paid out a quarterly dividend of 21.25 cents per share. Also in the said period, management announced an increase of 29% in its quarterly dividend to 27.50 cents per share. This hike is effective for the third quarter. Notably, the new rate takes the company's annualized dividend to \$1.10 per share.

The company is on track with its de-leveraging goals. It lowered its total gross debt by more than \$2.3 billion since it concluded Pinnacle Foods' buyout through the end of the second quarter. As of the end of the second quarter of fiscal 2021, the company's net debt to last twelve month's adjusted EBITDA ratio was 3.6x. Markedly, the company was able to achieve its preset target of Net Leverage Ratio of 3.5x-3.6x ahead of schedule.

On Dec 7, 2020, the Company entered into a definitive agreement to divest its Peter Pan peanut butter business to Post Holdings, Inc. The deal is expected to be closed by the first calendar quarter of 2021.

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## Guidance

Management is uncertain about the impact of coronavirus on Conagra's fiscal 2021 performance. Keeping this in mind, management did not offer any guidance for fiscal 2021.

Nonetheless, the company continued to see a considerable increase in demand in the retail business in the third quarter of fiscal 2021, to date. However, the company continued to witness sluggish demand for foodservice products. Additionally, costs associated with the pandemic have been a drag.

Considering these factors, management expects organic sales growth of 6-8% in the third quarter of fiscal 2021. Adjusted operating margin is likely to be 16-16.5%, while adjusted earnings per share are envisioned between 56 cents and 60 cents. The company's third-quarter prediction does not take into account the impact of the pending divestiture of Peter Pan peanut butter business. Moreover, third-quarter guidance is based on the assumption that end-to-end supply chain operations will remain smooth.

Apart from this, management reiterated its targets for fiscal 2022. Organic net sales are anticipated to grow 1-2% (three-year CAGR ending fiscal 2022). Adjusted operating margin is expected in a range of 18-19% and adjusted EPS for fiscal 2022 is likely to be between \$2.66 and \$2.76.

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## Recent News

### Conagra Unveils Buyout of Peter Pan Brand by Post Holdings - Jan 25, 2021

Conagra Brands and Post Holdings unveiled that the latter has concluded the buyout of the Peter Pan peanut butter brand from the former.

## Valuation

Conagra shares are down 5% in the year-to-date period but up 5.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.1%, while the Zacks Consumer Staples sector declined 1.1% in the year to date period. Over the past year, the Zacks sub-industry went up 4.8% while the sector declined 0.7%.

The S&P 500 index is up 4.5% in the year to date period and 18% in the past year.

The stock is currently trading at 13.22X forward 12-month earnings, which compares to 19.24X for the Zacks sub-industry, 19.09X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.24X and as low as 9.43X, with a 5-year median of 15.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 14.01X forward 12-month earnings.

The table below shows summary valuation data for CAG

Valuation Multiples - CAG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.22	19.24	19.09	22.85
	5-Year High	23.24	22.91	22.42	23.8
	5-Year Low	9.43	14.75	16.5	15.3
	5-Year Median	15.82	18.53	19.48	17.85
P/S F12M	Current	1.55	1.79	10.2	4.56
	5-Year High	2.32	2.03	11.97	4.56
	5-Year Low	0.96	1.38	8.59	3.2
	5-Year Median	1.64	1.7	10.46	3.68
EV/EBITDA F12M	Current	10.81	12.7	35.58	17.2
	5-Year High	13.86	14.3	38.25	18.8
	5-Year Low	7.93	10.61	25.83	12.95
	5-Year Median	11.55	12.78	34.14	15.72

As of 02/11/2021

Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 253)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
B&G Foods, Inc. (BGS)	Neutral	3
Campbell Soup Company (CPB)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Ingredion Incorporated (INGR)	Neutral	4
Kellogg Company (K)	Neutral	4
Post Holdings, Inc. (POST)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	3

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CAG	X Industry	S&P 500	CPB	GIS	SJM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	B
Market Cap	16.82 B	4.40 B	27.73 B	14.23 B	34.80 B	13.00 B
# of Analysts	8	3	13	7	8	4
Dividend Yield	3.19%	0.00%	1.43%	3.15%	3.58%	3.16%
Value Score	A	-	-	B	A	A
Cash/Price	0.00	0.07	0.06	0.05	0.07	0.03
EV/EBITDA	13.56	13.82	14.86	12.86	11.79	9.93
PEG F1	1.88	3.32	2.36	10.80	2.03	NA
P/B	1.99	3.27	3.88	5.12	3.93	1.53
P/CF	11.15	12.38	15.06	11.58	12.39	8.99
P/E F1	13.13	22.68	20.72	15.55	15.19	13.10
P/S TTM	1.46	1.42	3.05	1.61	1.90	1.61
Earnings Yield	7.55%	4.16%	4.73%	6.43%	6.59%	7.63%
Debt/Equity	0.98	0.51	0.68	1.80	1.24	0.46
Cash Flow (\$/share)	3.09	2.70	6.76	4.06	4.59	12.68
Growth Score	C	-	-	C	B	C
Historical EPS Growth (3-5 Years)	1.00%	3.23%	9.27%	-2.12%	5.36%	7.32%
Projected EPS Growth (F1/F0)	13.87%	14.10%	14.04%	2.42%	3.77%	-0.68%
Current Cash Flow Growth	22.57%	3.38%	3.29%	7.36%	9.11%	-2.78%
Historical Cash Flow Growth (3-5 Years)	4.34%	5.26%	7.74%	2.72%	3.48%	11.88%
Current Ratio	0.83	1.78	1.38	0.85	0.76	0.77
Debt/Capital	49.43%	35.84%	41.33%	64.31%	55.30%	31.49%
Net Margin	9.67%	4.59%	10.58%	20.02%	13.16%	10.92%
Return on Equity	16.50%	11.66%	14.86%	37.44%	28.60%	13.31%
Sales/Assets	0.52	0.93	0.51	0.72	0.59	0.48
Projected Sales Growth (F1/F0)	0.01%	2.72%	6.33%	-2.91%	1.11%	0.52%
Momentum Score	D	-	-	D	C	C
Daily Price Change	-2.52%	0.00%	-0.09%	-1.22%	-2.03%	-1.58%
1-Week Price Change	0.06%	1.86%	4.58%	-1.27%	-1.20%	-1.68%
4-Week Price Change	1.12%	3.85%	0.84%	2.40%	2.08%	1.26%
12-Week Price Change	-4.86%	12.62%	8.82%	-4.76%	-8.21%	-2.63%
52-Week Price Change	5.68%	5.74%	8.85%	-2.87%	7.40%	5.80%
20-Day Average Volume (Shares)	3,635,277	134,160	2,105,275	2,625,770	4,475,889	1,221,551
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.62%	-0.14%	0.37%	0.71%
EPS F1 Estimate 12-Week Change	2.97%	0.77%	1.93%	3.22%	3.95%	0.71%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.30%	0.49%	0.85%	3.84%

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

Value Score	A
Growth Score	C
Momentum Score	D
VGM Score	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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## 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.