

Caseys General Stores (CASY)

\$179.00 (As of 09/11/20)

Price Target (6-12 Months): **\$206.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 09/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Shares of Casey's have increased in the past three months. The stock got a boost following the company's first-quarter fiscal 2021 performance, wherein the bottom-line not only came ahead of the Zacks Consensus Estimate but also increased year over year. Notably, improved sales volume coupled with better expense management and strong fuel margin contributed to earnings per share growth. We note that Inside same-store sales steadily improved throughout the quarter benefiting from Grocery & Other Merchandise category performance. Looking ahead, management remains optimistic about the segment. Undeniably, the company remains committed toward improving sales and profitability. Casey's remains focused on price and product optimization, cost containment, loyalty program, digital engagements and maintaining ample liquidity.

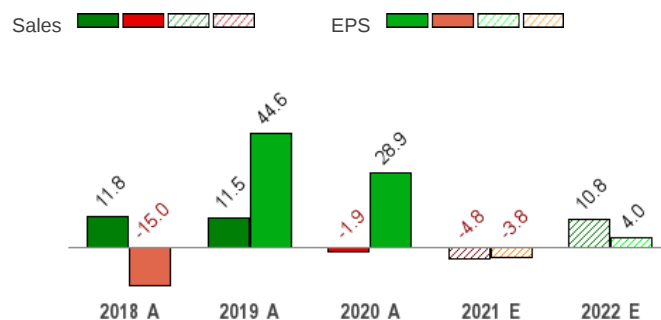
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$183.45 - \$114.01
20-Day Average Volume (Shares)	224,566
Market Cap	\$6.6 B
Year-To-Date Price Change	12.6%
Beta	0.87
Dividend / Dividend Yield	\$1.28 / 0.7%
Industry	Retail - Convenience Stores
Zacks Industry Rank	Top 3% (7 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	62.0%
Last Sales Surprise	-1.3%
EPS F1 Estimate 4-Week Change	0.6%
Expected Report Date	NA
Earnings ESP	0.4%
P/E TTM	22.3
P/E F1	26.2
PEG F1	2.9
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,475 E	2,465 E	2,305 E	2,275 E	9,681 E
2021	2,105 A	2,287 E	2,161 E	2,156 E	8,737 E
2020	2,627 A	2,488 A	2,248 A	1,813 A	9,175 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.59 E	\$2.70 E	\$1.43 E	\$0.89 E	\$7.10 E
2021	\$3.24 A	\$2.55 E	\$1.11 E	\$0.74 E	\$6.83 E
2020	\$2.31 A	\$2.21 A	\$0.91 A	\$1.67 A	\$7.10 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 09/11/2020. The reports text is as of 09/14/2020.

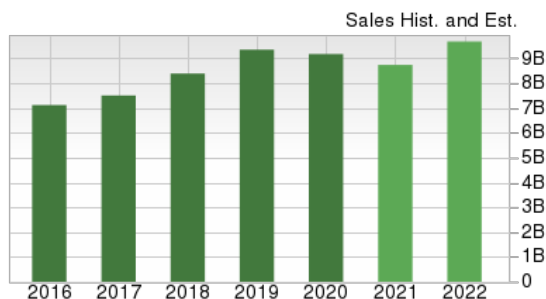
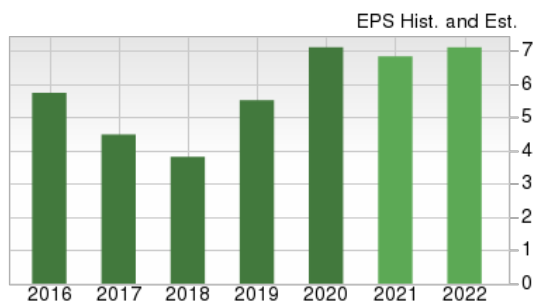
Overview

Founded in 1959 and based in Ankeny, IA, Casey's General Stores, Inc. operates convenience stores under the Casey's and Casey's General Store names in 16 Midwestern states, mainly Iowa, Missouri and Illinois. The company also operates two stores under the name "Tobacco City", selling primarily tobacco and nicotine products, one liquor store, and one grocery store.

The company's stores offer a variety of food selection (including freshly prepared foods such as pizza, donuts and sandwiches), beverages, tobacco and nicotine products, health and beauty aids, school supplies, housewares, pet supplies, and automotive products. All but three Casey's Stores offer fuel for sale on a self-service basis.

Each Casey's Store carries more than 3,000 food and nonfood items. Many of the products offered are those generally found in a supermarket. The selection is generally limited to one or two well-known brands of each item stocked. The company began marketing made-from-scratch pizza in 1984.

The company, which operates more than 2,000 stores, primarily derives revenues under three categories — Fuel (63% of FY19 total revenue), Grocery and Other Merchandise (25% of FY19 total revenue) and Prepared Food and Fountain (11% of FY19 total revenue). Other category accounts for 1% of total revenues. Two distribution centers are in operation (in Ankeny, Iowa adjacent to the Store Support Center and in Terre Haute, Indiana) from which grocery and general merchandise items are supplied to stores.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Impressive Stock Performance:** Shares of Casey's have risen 16% in the past three months, almost in line with the industry. The stock got a boost following the company's first-quarter fiscal 2021 results, wherein the bottom-line not only came ahead of the Zacks Consensus Estimate but also increased year over year. Notably, improved sales volume coupled with better expense management and strong fuel margin contributed to bottom-line growth. Inside sales, which comprises Grocery & Other Merchandise as well as Prepared Food & Fountain categories, increased 1.9% during the quarter. Markedly, fuel margin surged to 38.2 cents per gallon from 24.4 cents per gallon in the prior-year period driven in part by the company's centralized retail pricing strategy and procurement improvements. Impressively, fuel gross profit jumped 39.1% to \$210 million driven by higher fuel margin. This led to the increase in overall gross profit. The company's gross profit rose 10.2% year over year to \$623.5 million during the quarter under review. Management highlighted that for second quarter-to-date ending Sep 9, 2020, fuel margin is above 30 cents per gallon. The company had reported fuel margin of 22.9 cents in the second quarter of fiscal 2020.
- ▲ **Grocery & Other Merchandise Category Gaining:** Grocery & Other Merchandise sales rose 6.4% to \$731.9 million during the first quarter of fiscal 2021. This followed an increase of 1% in the preceding quarter. We note that same-store sales for the segment rose 3.6% compared with an increase of 3.2% registered in the year-ago quarter and a decline of 2% witnessed in the preceding quarter. The metric gained on account of robust sales of alcohol and packaged beverages. Notably, Grocery & Other Merchandise margin expanded 90 basis points to 32.2%. Again, gross profit jumped 9.4% to \$235.6 million during the quarter. Management highlighted that for second quarter-to-date ending Sep 9, 2020, Grocery & Other Merchandise category is trending up in the high single digits.
- ▲ **Prioritize Actions to Tackle Coronavirus Crisis:** In order to steer through the uncertain environment, Casey's has prioritized its actions. Management had earlier informed that the company is well positioned to sail through these turbulent times, citing strong balance sheet and ample liquidity. Moreover, management has been undertaking some bold steps to optimize cash flow. These involves deferring capital expenditures, revisiting payment terms with suppliers, lowering inventory levels and adjusting store operating hours. Casey's is strengthening pizza promotions for guests who are seeking meal solutions. It is enhancing delivery capabilities via DoorDash at 584 stores. The company is also increasing online grocery items at all outlets and providing curbside pick option to guests. Notably, the company also owns and operates distribution centers and transportation fleet.
- ▲ **Value Creation Plan:** Casey's remains on track with its value creation plan to improve sales and profitability. This includes fleet card program, price and product optimization, loyalty program, digital engagements comprising mobile app and online ordering capabilities, cost containment efforts as well as capital reallocation plan. Management is also focusing on improving distribution efficiency. The company had launched the new Caseys.com e-commerce website, rolled out new mobile app, initiated fuel price optimization platform across all outlets. Further, the company remains optimistic about the Casey's Rewards program, wherein customers can gain points from everyday purchases and redeem the same for fuel discounts, Casey's Cash or donate to a local school. The company has more than 8,500 accounts in the first quarter of fiscal 2021 on the fleet card program. At the end of August, the company had 2.7 million members. We note that digital sales surged 162% during the quarter. Casey's also informed that 50% of pizza orders are now taken via app, website or DoorDash marketplace.
- ▲ **Efforts to Yield Results:** Management highlighted that Casey's fleet card program, which involves managing and monitoring of initial sales, back-end system processing, billing and other consumer-oriented services, is likely to lift fuel sales. Moreover, the program is anticipated to be accretive to fuel and in-store sales. FLEETCOR Technologies is handling the company's fleet card program. The company's digitization efforts will help create a seamless shopping experience online as well as in-store and facilitate same-store sales growth. Further, the company's price and product optimization strategy will help augment sales and fuel margin. During first-quarter fiscal 2021, fuel margin surged to 38.2 cents per gallon from 24.4 cents per gallon in the prior-year period driven in part by the company's centralized retail pricing strategy and procurement improvements.
- ▲ **Store Update:** During the first quarter of fiscal 2021, the company constructed nine new stores and closed two. As of Jul 31, the company operated 2,214 stores in 16 Midwest states. The company had four acquisition stores under agreement to purchase and a new store pipeline of 86 sites, including 20 under construction, as of Jul 31. Management expects new stores to generate double digit returns on invested capital on average by their third year of operations. Notably, the company plans to open 40 new stores in fiscal 2021. In the last fiscal year, the company constructed 60 new stores, acquired 18 and had two additional stores under agreement to purchase. The company closed 13 stores.
- ▲ **Financial Flexibility:** As of July 31, Casey's had approximately \$572 million in available liquidity, consisting of approximately \$247 million in cash and cash equivalents in hand and \$325 million in borrowing capacity on existing lines of credit. Shortly after the end of the first quarter, the company completed the refinancing of senior notes that were due in August. On Aug 10, 2020, the company completed the refinancing of the \$569 million 5.22% notes due August 2020 with the proceeds from \$650 million 2.85% and 2.96% senior notes, issued via private placement, maturing Aug 7, 2030 and Aug 6, 2032, respectively. Moreover, the company's times interest earned ratio stands at 8.3 better than the industry's ratio of 6.8. Also, the company's net debt-to-EBITDA at the end of the quarter was 1.8 times. We note that the company's current annualized dividend rate of \$1.28 per share reflects an increase of 10.3% from the year-ago period. Notably, the company has a dividend payout of 15.9%, dividend yield of 0.7% and free cash flow yield of 1.1%. With an annual free cash flow return on investment of 12%, ahead of the industry's nearly 3.1%, the dividend payment is likely to be sustainable.

Casey's remains on track with its value creation plan to improve sales and profitability. This includes fleet card program, price and product optimization, and loyalty program.

Risks

- **Dismal Top-Line Performance:** Casey's continued to grapple with dismal top-line performance, as evident from first-quarter fiscal 2021 results. Total revenues not only fell short of the Zacks Consensus Estimate but also declined year over year. We note that total revenues of \$2,105 million fell 19.9% year over year and also missed the Zacks Consensus Estimate of \$2,134 million. This followed a decline of 16.8% in the fourth-quarter of fiscal 2020. We note that the company had surpassed revenue estimates in the preceding quarter. Revenue declines across Fuel and Prepared Food & Fountain categories hurt the company's top line.
 - **Softness in Prepared Food & Fountain Unit:** Prepared Food & Fountain category sales decreased 8.5% to \$270.8 million during the first quarter of fiscal 2021. This followed a decline of 9.5% in the preceding quarter. Same-store sales fell 9.8% compared with 1.6% growth witnessed in the year-ago quarter and 13.5% decrease registered in the preceding quarter. The metric during the quarter under review declined owing to lower store traffic and restrictions limiting self-serve prepared food items such as bakery and dispensed beverages. The company ended the quarter with roughly 200 stores with some sort of food restrictions and close to 50 stores with beverage restrictions. Further, Prepared Food & Fountain margin shrunk 250 basis points to 59.7%. Higher commodity costs and increased promotional activity adversely impacted the margin. Gross profit fell 12.2% year over year to \$161.6 million. Lower volumes, ongoing self-service restrictions and a 9% increase in cheese costs to \$2.12 per pound versus \$1.95 per pound last year contributed to this decline. Management highlighted that for second quarter-to-date ending Sep 9, 2020, Prepared Food & Fountain is trending down mid-single digits.
 - **Sluggishness in Fuel Category:** After declining 25.7% in the fourth quarter of fiscal 2020, Fuel sales decreased 33.3% to \$1,086 million in the first quarter of fiscal 2021 on account of decline in average retail price per gallon and the number of gallons sold. We note that average retail price per gallon decreased 24.8%, while total gallons sold fell 11.2% to 549.5 million. Fuel gallons same-store sales fell 14.6% compared with a decline of 2% in the year-ago quarter owing to the ongoing pandemic and lower guest traffic. This followed a decline of 14.7%, 2% and 1.8% witnessed in the preceding three quarters. Management highlighted that for second quarter-to-date ending Sep 9, 2020, the company has experienced negative same store gallons in the mid-to-high single digits.
 - **Rise in Operating Expenses May Hurt Margins:** We note that higher operating expenses may be a threat to margin and the bottom line. Operating expenses rose 1.6% during the first quarter of fiscal 2021. This follows an increase of 6.2%, 10.5%, 8.5% and 5.7% during the preceding four quarters. The year-over-year increase can be attributed to operating 53 more stores compared with the same period last year and incremental expenses associated with the ongoing pandemic. This was partly offset by reduction in hours at the stores and lower credit card fees. Management expects operating expenses to increase commensurate with store hours, returning to pre-COVID levels.
 - **Fuel & Tobacco Products Related Headwinds:** Fuel sales are a significant part of Casey's overall revenues. However, any disruption in the supply of fuel or rise in fuel costs or any other volatility in the wholesale fuel market or price competition may adversely impact its retail fuel profit margins. Quite apparent, these headwinds will have a direct impact on the company's fuel gallon volume, fuel gross profit, and overall customer traffic at its outlets. Total fuel gallons sold fell 10.7% to 487.7 million during the fourth quarter of fiscal 2020. While same-store gallons sold for the first half of the quarter were sturdy, shelter in place restrictions for the back half of the quarter significantly affected quarterly gallon volume. Similar to fuel, tobacco products form a major part of the grocery and other merchandise category. Increase in the price of the same to offset rise in taxes or stricter government regulation on them or people quitting smoking for health reasons could impact the company's overall sales.
 - **Stiff Competition May Hurt Market Share:** Casey's operate in a highly competitive convenience store and retail fuel industries. The company faces stiff competition from other convenience store chains, gasoline stations, supermarkets, drugstores, discount stores, club stores, fast food outlets, and a variety of other retail companies in terms of price, resource, store expansion, brand name recognition and promotional activities. This may dent the company's sales and margins.
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Last Earnings Report

Casey's Q1 Earnings Top Estimates, Revenues Fall Y/Y

Casey's General Stores, Inc. reported mixed first-quarter fiscal 2021 results. While the top line fell short of the Zacks Consensus Estimate, the bottom line beat the same. Total revenues continued to decline year over year but earnings per share increased. Notably, improved sales volume coupled with strong fuel margin and better expense management contributed to bottom-line growth.

Casey's reported quarterly earnings of \$3.24 per share that beat the Zacks Consensus Estimate of \$2.00 and improved significantly from \$2.31 in the year-ago period.

Total revenues came in at \$2,105 million, which not only declined 19.9% year over year but also missed the Zacks Consensus Estimate of \$2,134 million. We note that the company had surpassed revenue estimates in the preceding quarter. Revenue declines across Fuel and Prepared Food & Fountain categories, was partly offset by increase in Grocery & Other Merchandise category.

In spite of the decline in the top line, gross profit increased 10.2% year over year to \$623.5 million due to fall in cost of goods sold. Further, gross margin expanded to 29.6% from 21.5% in the year-ago period. The company witnessed a decline of 28.1% in cost of goods sold during the reported quarter.

We note that Casey's registered an increase of 1.6% in operating expenses on account of operating 53 more stores compared with the same period last year and incremental expenses associated with the ongoing pandemic. This was partly offset by reduction in hours at the stores and lower credit card fees. Management expects operating expenses to increase commensurate with store hours, returning to pre-COVID levels.

Adjusted EBITDA for the quarter was \$237.8 million compared to \$186.4 million a year ago.

Performance by Categories

We note that Fuel sales decreased 33.3% to \$1,086 million on account of decline in average retail price per gallon and the number of gallons sold. We note that average retail price per gallon decreased 24.8%, while total gallons sold fell 11.2% to 549.5 million. Fuel gallons same-store sales fell 14.6% compared with decline of 2% in the year-ago quarter owing to the ongoing pandemic and lower guest traffic. Impressively, gross profit increased 39.1% to \$210 million driven by higher fuel margin. Notably, fuel margin surged to 38.2 cents per gallon from 24.4 cents per gallon in the prior-year period driven in part by the company's centralized retail pricing strategy and procurement improvements.

Grocery & Other Merchandise sales rose 6.4% to \$731.9 million. Same-store sales rose 3.6% compared with 3.2% in the year-ago quarter, primarily due to robust sales of alcohol and packaged beverages. Notably, Grocery & Other Merchandise margin expanded 90 basis points to 32.2%. Again, gross profit jumped 9.4% to \$235.6 million during the quarter.

Prepared Food & Fountain sales declined 8.5% to \$270.8 million. Same-store sales decreased 9.8% against 1.6% growth witnessed in the year-ago quarter. The metric declined owing to lower store traffic and restrictions limiting self-serve prepared food items such as bakery and dispensed beverages. Further, Prepared Food & Fountain margin shrunk 250 basis points to 59.7%. Higher commodity costs and increased promotional activity adversely impacted the margin. Gross profit fell 12.2% year over year to \$161.6 million. Lower volumes, ongoing self-service restrictions and a 9% increase in cheese costs to \$2.12 per pound versus \$1.95 per pound last year, contributed to this decline.

Management highlighted that for second quarter-to-date ending Sep 9, 2020, the company has experienced negative same store gallons in the mid-to-high single digits, while fuel margin is above 30 cents per gallon. While Grocery & Other Merchandise category is trending up in the high single digits, Prepared Food & Fountain is trending down mid-single digits.

Store Update

During the quarter, the company constructed nine new stores and closed two. As of Jul 31, the company operated 2,214 stores in 16 Midwest states. The company had four acquisition stores under agreement to purchase and a new store pipeline of 86 sites, including 20 under construction, as of Jul 31. Management expects new stores to generate double digit returns on invested capital on average by their third year of operations. Notably, the company plans to open 40 new stores in fiscal 2021.

Other Financial Aspects

Casey's ended the reported quarter with cash and cash equivalents of \$246.5 million, long-term debt (net of current maturities) of \$1,281.7 million and shareholders' equity of \$1,751.2 million. Cash and cash equivalents together with undrawn capacity of \$325 million line of credit, provides an ample liquidity of \$572 million. During the quarter, the company did not make any share repurchases and still has \$300 million under authorization. The company generated cash flow from operations of \$352.1 million during the quarter and incurred capital expenditure of \$45.1 million, resulting in free cash flow of \$306.9 million.

Quarter Ending	07/2020
Report Date	Sep 08, 2020
Sales Surprise	-1.26%
EPS Surprise	62.00%
Quarterly EPS	3.24
Annual EPS (TTM)	8.03

Recent News

Casey's Launches Curbside Pickup – Sep 1, 2020

Casey's is now serving guests curbside with a new, technology-enabled offering accessible within the Casey's app. The company launched curbside across all 2,200 locations. Guests can order for curbside pickup with the Casey's app or online at Caseys.com.

Valuation

Casey's shares are up 12.6% in the year-to-date period and nearly 9.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 12.5% and 28.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 9.6% and 34.8%, respectively.

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

The stock is currently trading at 25.84X forward 12-month earnings, which compares to 25.79X for the Zacks sub-industry, 31.61X 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 30.79X and as low as 18.05X, with a 5-year median of 23.66X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$206 price target reflects 29.72X forward 12-month earnings.

The table below shows summary valuation data for CASY

Valuation Multiples - CASY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.84	25.79	31.61	22.15
	5-Year High	30.79	31.72	34	23.44
	5-Year Low	18.05	17.42	19.09	15.26
	5-Year Median	23.66	24.55	23.55	17.63
P/S F12M	Current	0.74	0.58	1.26	4.08
	5-Year High	0.74	0.58	1.32	4.29
	5-Year Low	0.37	0.28	0.82	3.11
	5-Year Median	0.54	0.43	1.01	3.66
EV/EBITDA TTM	Current	10.95	11.07	19.1	14.46
	5-Year High	18.88	17.01	20.71	15.61
	5-Year Low	8.72	7.9	11.15	9.51
	5-Year Median	10.73	9.89	12.95	13

As of 09/11/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 3% (7 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Target Corporation (TGT)	Outperform	1
Burlington Stores, Inc. (BURL)	Neutral	3
Companhia Brasileira de Distribuicao (CBD)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
The Kroger Co. (KR)	Neutral	2
TravelCenters of America LLC (TA)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

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

Industry Comparison Industry: Retail - Convenience Stores				Industry Peers		
	CASY	X Industry	S&P 500	TA	TGT	WMT
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	3
VGM Score	A	-	-	A	B	A
Market Cap	6.61 B	3.46 B	23.09 B	308.12 M	73.92 B	387.37 B
# of Analysts	6	3	14	1	13	15
Dividend Yield	0.72%	0.00%	1.65%	0.00%	1.84%	1.58%
Value Score	C	-	-	A	C	B
Cash/Price	0.01	0.24	0.07	0.47	0.10	0.04
EV/EBITDA	12.08	13.04	13.07	14.00	11.12	12.35
PEG F1	2.88	NA	2.93	NA	2.86	4.60
P/B	3.77	2.05	3.19	0.32	5.88	4.77
P/CF	12.79	7.46	12.63	2.12	12.68	15.44
P/E F1	26.21	26.22	21.25	NA	20.64	25.89
P/S TTM	0.76	0.41	2.44	0.06	0.87	0.71
Earnings Yield	3.82%	1.11%	4.52%	-1.59%	4.84%	3.86%
Debt/Equity	0.73	2.30	0.70	3.88	1.13	0.56
Cash Flow (\$/share)	14.00	12.04	6.93	10.07	11.64	8.85
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	2.74%	2.74%	10.41%	NA	6.65%	2.80%
Projected EPS Growth (F1/F0)	-3.85%	31.78%	-4.75%	85.34%	11.94%	7.11%
Current Cash Flow Growth	14.89%	27.74%	5.26%	40.59%	10.26%	-0.12%
Historical Cash Flow Growth (3-5 Years)	8.87%	0.22%	8.49%	-8.44%	3.95%	-0.31%
Current Ratio	1.05	1.07	1.35	1.09	1.11	0.79
Debt/Capital	42.26%	60.88%	42.95%	79.50%	53.01%	35.98%
Net Margin	3.45%	1.99%	10.25%	0.53%	4.16%	3.30%
Return on Equity	18.25%	7.73%	14.59%	-2.79%	30.25%	19.13%
Sales/Assets	2.19	1.93	0.50	1.68	1.89	2.29
Projected Sales Growth (F1/F0)	-4.77%	-13.79%	-1.42%	-22.81%	12.36%	4.96%
Momentum Score	A	-	-	F	C	A
Daily Price Change	1.08%	0.02%	0.39%	0.05%	1.10%	-0.08%
1-Week Price Change	-0.92%	-2.15%	-1.28%	-3.38%	-2.40%	1.80%
4-Week Price Change	3.94%	1.97%	-1.42%	24.78%	9.52%	3.68%
12-Week Price Change	16.18%	20.59%	4.86%	0.80%	25.87%	15.86%
52-Week Price Change	5.42%	75.20%	-1.17%	47.69%	35.53%	16.92%
20-Day Average Volume (Shares)	224,566	112,533	1,834,261	318,487	5,957,238	14,340,277
EPS F1 Estimate 1-Week Change	2.03%	1.02%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.61%	0.30%	0.00%	0.00%	43.08%	7.11%
EPS F1 Estimate 12-Week Change	2.12%	-373.94%	4.05%	-750.00%	44.34%	7.05%
EPS Q1 Estimate Monthly Change	0.72%	0.36%	0.00%	0.00%	19.59%	2.97%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

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

Disclosures

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Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.