

Central Garden & Pet (CENT)

\$41.56 (As of 01/20/21)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Shares of Central Garden & Pet have underperformed the industry in the past three months. The downside can be attributed to soft earnings view for fiscal 2021, owing to higher investments. Markedly, the company expects higher investments related to capacity expansion, brand building, increases in labor and freight cost as well as key commodity prices. Management also expects supply chain pressure owing to higher demand levels and incremental interest expense. Nevertheless, the company has been taking steps to strengthen its position in the pet supplies and lawn and garden supplies space. It has been developing new products, advancing digital capabilities, optimizing supply chain, and focusing on marketing activities. Impressively, these endeavors aided the company to continue with its stellar performance in fourth-quarter fiscal 2020.

Price, Consensus & Surprise



Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$44.80 - \$23.82
20-Day Average Volume (Shares)	64,806
Market Cap	\$2.3 B
Year-To-Date Price Change	7.6%
Beta	0.64
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Consumer Products - Discretionary
Zacks Industry Rank	Top 43% (110 out of 253)

Sales and EPS Growth Rates (Y/Y %)

Sales				
EPS				

Last EPS Surprise	600.0%
Last Sales Surprise	13.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/03/2021
Earnings ESP	0.0%
P/E TTM	18.3
P/E F1	20.1
PEG F1	2.8
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	545 E	763 E	792 E	559 E	2,718 E
2021	556 E	782 E	758 E	578 E	2,674 E
2020	483 A	703 A	833 A	676 A	2,696 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.01 E	\$0.91 E	\$1.07 E	\$0.22 E	\$2.18 E
2021	\$0.00 E	\$0.93 E	\$1.01 E	\$0.13 E	\$2.07 E
2020	-\$0.08 A	\$0.78 A	\$1.32 A	\$0.25 A	\$2.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2021. The reports text is as of 01/21/2021.

Overview

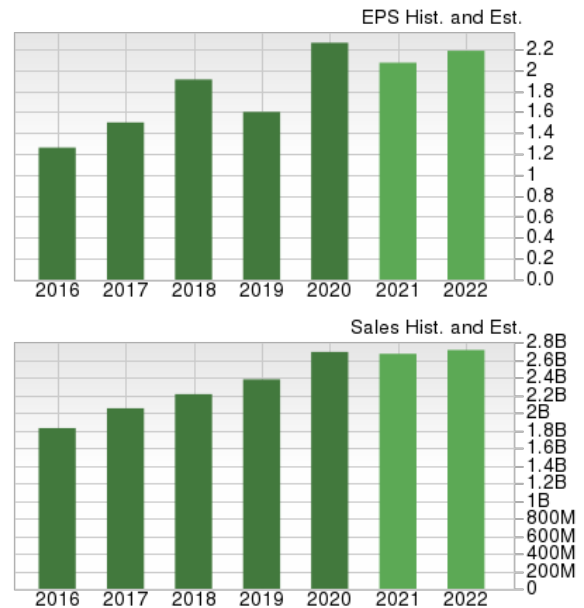
Committed to product innovation, Central Garden & Pet Co. is looking forward to strengthening its position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies space. Unique packaging, point-of-sale displays, logistic capabilities and a high level of customer service are some of its key growth catalysts.

With such upsides, it boasts a wide repertoire of clients, including PetSmart, PETCO, Walmart, Home Depot and Lowe's. Further, the company actively engages in buyout activities to gain market share. In this regard, it acquired four new businesses in the last three years, including Arden and C&S.

Moving on, the company offers products to mass merchants, home improvement centers, lawn and garden nurseries, grocery stores, specialty pet stores, veterinarians' municipalities, and other individual animal buyers. It also produces both branded products and private-label products along with distributing third-party brands. With such a wide array of products in its portfolio, Central Garden & Pet operates under two segments as discussed below.

Pet Segment (58% of Fiscal 2020 total sales): This segment offers food and accessories for dogs, cats, birds, small animals, fishes, horses and livestock under brands, such as Adams, Aqueon, Avoderm, C&S Products, Cadet, Farnam, Four Paws, Kaytee, K&H Pet Products, Nylabone, Pinnacle, TFH Publications, Zilla, Altosid, Comfort Zone, Coralife, Interpet, Pet Select and Zodiac.

Garden Segment (42% of Fiscal 2020 total sales): This segment offers both proprietary and nonproprietary grass seeds, herbicides, insecticides, pesticides, decorative outdoor lifestyle and lighting products. The segment markets its products under brands such as AMDRO, Arden Companies, Ironite, Pennington, Sevin, Lilly Miller, Over-N-Out, Smart Seed and The Rebels.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Strategic Endeavors Aiding Performance:** Central Garden & Pet is looking forward to strengthening its position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies space. Unique packaging, point-of-sale displays, logistic capabilities and a high level of customer service are some of its key catalysts. Notably, the company has been advancing digital capabilities, optimizing supply chain, expanding data analytics capability and focusing on marketing activities to better engage with customers. In order to gain market share, the company seeks to develop differentiated products, improve sales capacity, respond to channel shifts and become more cost-effective. Impressively, the company continued with its stellar performance in fourth-quarter fiscal 2020, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year. The quarter marked fourth straight sales and earnings beat. Results primarily benefited from strong organic growth across Pet and Garden segments.

Central Garden & Pet has been advancing digital capabilities, optimizing supply chain, expanding data analytics capability and focusing on marketing activities to better engage with customers.

▲ **Pet & Garden Business Gaining Traction:** The COVID-19 storm has ushered in a number of new trends, including work-from-home, learn-at-home, dine-at-home and play-at-home, to name a few. This forceful isolation has taken a toll on the mental health of people, giving rise to the dire need to find comfort and companionship. With little or no scope for socializing due to the current situation, people are increasingly indulging in pet adoptions to fight the emotional stress. As a result, net sales at the Pet segment increased 22% year over year during the fourth quarter of fiscal 2020, driven by strength in dog treats and chews, distribution, and small animal consumables and supplies. According to Packaged Facts, the pet industry is expected to increase at approximately 4% per year through 2025.

Also, people have been showing great interest in gardening activities that also eases concerns over food security. According to The Freedonia Group, lifestyle changes and shifts in demographics are creating new opportunities in gardening. According to Numerator, household penetration grew from 67.2% in 2019 to 72.7% in 2020. About 70% of homeowners are doing more home projects and about 7.1 million households picked up gardening as a hobby or leisure activity in 2020. At the Garden segment, net sales advanced 30.9% as favorable weather and robust consumer demand drove increases in distribution, controls and fertilizers, wild bird feed and live plants.

▲ **Acquisitions Playing a Key Role:** Central Garden & Pet company has been a disciplined buyer in the garden and pet areas and has concluded more than 50 acquisitions since 1992. The company through buyouts also looks to enhance manufacturing capabilities, operating synergies, or developing distribution network. Over the years, the company has bought several new businesses including entering into the live plant and outdoor seat cushion businesses. In this regard, Central Garden & Pet acquired C&S Products in May 2019, which has been complementing its existing wild bird feed business. This buyout has been boosting the company's top line. Prior to this, the company acquired the remaining 55% stake at Arden Companies in February 2019. Earlier, the company bought Bell Nursery, a leading grower and distributor of live flowers and plants in March 2018, while the same year in April, it acquired General Pet Supply, a supplier of pet food and supplies. In December, 2020, the company acquired the live goods grower — Hopewell Nursery. In the same month the company entered into a deal to buy Green Garden Products, which is a key provider of vegetables, seed starters, herb and flower seed packets, and plant nutrients across North America. In January, 2021 the company acquired DoMyOwn.com, which is a fast-growing online retailer of professional-grade control products across the United States.

▲ **Healthy Commercial Relationship:** Being the leading producer of garden and pet supplies products in the United States with a diversified portfolio of brands has aided Central Garden & Pet in developing healthy commercial relationships with giant retailers such as PetSmart, PETCO, Walmart, Home Depot and Lowe's. We believe this provides the company significant opportunity to grow. Sales to Walmart represented approximately 28%, 28% and 29%, sales to Lowe's represented approximately 24%, 22% and 21%, and sales to Home Depot represented approximately 31%, 29% and 27% of Garden segment's net sales in fiscal 2020, 2019 and 2018, respectively.

Walmart, the company's largest customer, represented approximately 17% of total net sales in each of the fiscal years 2020, 2019 and 2018. Home Depot, the second largest customer, represented about 13%, 12% and 11% of total net sales in fiscal 2020, 2019 and 2018, respectively. Lowe's, Costco and PetSmart are also significant customers, and together with Walmart and Home Depot, accounted for approximately 52% of net sales in fiscal 2020, 49% in fiscal 2019 and 48% in fiscal 2018.

▲ **Financial Status:** Central Garden's cash and cash equivalents (including restricted cash) at the end of fourth-quarter fiscal 2020 was \$666.4 million, which rose 31% sequentially. Also, the company's times interest earned ratio of 4.5 as of Sep 26, 2020 has increased from 4.2 as of Jun 27, 2020. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. Subsequent to fiscal year end, the company issued \$500 million, 4.125% senior notes due October 2030, which was utilized to redeem all of outstanding \$400 million, 6.125% senior notes due in 2023. The remainder of the proceeds was used for fees and expenses associated with the transaction and general corporate purposes. The company ended the quarter with a leverage ratio of 2.2x down from 3.1x a year ago. It had no borrowings under \$400 million ABL line at the end of the year.

Reasons To Sell:

- ▼ **FY21 EPS to Decline Y/Y:** Central Garden & Pet anticipates fiscal 2021 adjusted earnings to be \$2.05 per share or better. We note that the company reported adjusted earnings \$2.26 per share for fiscal 2020. This year-over-year decline indicates higher investments related to capacity expansion, brand building and e-commerce, and increases in labor and freight cost as well as key commodity prices. Additionally, management expects an incremental interest expense of 14-16 cents a share. Further, the company anticipates second-half headwinds associated with lapping almost ideal weather for the gardening season and the COVID-19 tailwinds in 2020. The company forecast continued supply chain pressure owing to higher demand levels and inflationary pressure in key commodities in fiscal 2021. Although shares of the company gained 5% in the past three months, it has underperformed the industry's rise of 40.2%.
- ▼ **SG&A Deleverage a Concern:** Although margins were robust in fourth-quarter fiscal 2020, SG&A expenses climbed 24.2% year over year to \$170.9 million. For fiscal 2020, SG&A expenses rose 8.4% to \$598.6 million, this reflects an increase of 7% in selling and delivery expense and 10% in warehouse and administrative expense. The increase in selling and delivery expense was mainly due to recent buyouts, higher marketing expense which includes increased spend in e-commerce and digital marketing as well as rise in delivery expense due to the sales volume increase and higher freight costs. Warehouse and administrative expense jumped owing to two recent acquisitions, higher labor expense, front-line worker bonuses, and increased variable compensation expense. The company also incurred additional expense for PPE.
- ▼ **Tough Competition:** Central Garden & Pet operates in highly-competitive markets. It faces intense competition from regional and national firms on grounds of price, product quality, number of products offered, brand awareness and customer service. The company's growth and success depend on its ability to offer high-quality distinguished products at a competitive price. In fact, the company's lawn and garden products compete against national and regional products and private label products produced by various suppliers. The company's turf and forage grass seed products, fertilizers, pesticides and combination products compete primarily against products marketed by The Scotts Miracle-Gro Company ("Scotts"). Additionally, Spectrum Brands and S.C. Johnson & Son, Inc. are strong competitors in yard and household insecticides. The company's branded pet products compete against national and regional branded products and private label products produced by various suppliers. The company's largest competitors in the product categories are Spectrum Brands and Hartz Mountain. The segment's sales and distribution network compete with Animal Supply Co., Phillips Pet Food & Supplies and a number of smaller local and regional distributors.
- ▼ **Seasonality of Garden Segment:** Gardening is generally limited to the period between spring to summer, which makes the garden business highly seasonal in nature. A major part of the sales occurs during the second and third fiscal quarters. Failure to perform during the season is likely to have a significant impact on the company's yearly financials. In fiscal 2020, approximately 67% of Garden segment's net sales and 57% of total net sales occurred during the second and third quarters.
- ▼ **Supply Disruptions May Hurt Sales:** The restrictions on import of pet birds and the supply of small animals by the federal government and many state governments have hurt the demand. If these restrictions become more stringent, or similar restrictions are imposed on pet fish, sales of these products would suffer, and in turn impact the company's overall profitability. The company's Segrest subsidiary is the largest supplier of aquarium fish in the United States and also supplies pet birds and small animals. In fiscal 2019, Walmart exited the live fish business, which adversely impacted Segrest's sales. If other retailers follow suit, demand for aquarium fish may further soften.

Central Garden & Pet envisions continued supply chain pressure owing to higher demand levels and inflationary pressure in key commodities in fiscal 2021.

Last Earnings Report

Central Garden Q4 Earnings Beat, Sales Improve Y/Y

Central Garden & Pet Company continued with its stellar performance in fourth-quarter fiscal 2020, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year. The quarter marked fourth straight sales and earnings beat. Results primarily benefited from strong organic growth across segments.

The California-based company delivered quarterly earnings of 25 cents a share, which compared favorably with the Zacks Consensus Estimate of a loss of 5 cents. Moreover, the figure rose substantially from 4 cents reported in the year-ago period.

Central Garden & Pet Company generated net sales of \$676 million, beating the Zacks Consensus Estimate of \$596.5 million. Further, the top line improved 25% from the year-ago period. Management stated that the company has now lapped its most recent buyouts — Arden and C&S Products, and as a result, net sales benefited from organic growth in both segments.

Gross profit surged 32% to \$196.1 million, while gross margin expanded 150 basis points to 29% owing to favorable mix of product sales and pricing. Operating income jumped to \$25.2 million from \$10.9 million in the year-ago quarter. Markedly, operating margin increased 170 basis points to 3.7% due to gross margin gains and improved operating leverage.

SG&A expenses were \$170.9 million, up 24.2% year over year. As a percentage of net sales, SG&A expenses contracted 20 basis points to 25.3%.

Segment in Detail

Net sales at the **Pet** segment increased 22% year over year to \$434.1 million, driven by strength in dog treats and chews, distribution, and small animal consumables and supplies.

The segment's operating income grew 28% year over year to \$39.6 million. Notably, operating margin expanded 40 basis points to 9.1% courtesy of volume strength, favorable product mix and overhead efficiencies, partly offset by cost increases in key commodities and freight.

At the **Garden** segment, net sales advanced 30.9% year over year to \$241.9 million as favorable weather and robust consumer demand drove increases in distribution, controls and fertilizers, wild bird feed and live plants.

The segment's operating income of \$10.2 million increased sharply from \$0.3 million in the year-ago period. Operating margin expanded 400 basis points to 4.2%, driven by improved operating leverage, favorable product mix and pricing. This was partly offset by cost inflation.

Financial Details

Central Garden & Pet ended the quarter with cash and cash equivalents of \$652.7 million, total debt of \$694.1 million and shareholders' equity of \$1,076.8 million, excluding non-controlling interest. Cash provided by operations during the quarter was \$175.4 million compared with \$112.2 million a year ago. Management incurred capital expenditures of \$16 million during the quarter under review. For fiscal 2021, management envisions capital expenditures to be \$70-\$80 million.

Outlook

Central Garden & Pet anticipates fiscal 2021 adjusted earnings to be \$2.05 per share or better. We note that the company reported adjusted earnings \$2.26 per share for fiscal 2020. This year-over-year decline indicates higher investments related to capacity expansion, brand building and e-commerce, and increases in labor and freight cost as well as key commodity prices. Additionally, management expects an incremental interest expense of 14-16 cents a share. Further, the company anticipates second-half headwinds associated with lapping almost ideal weather for the gardening season and the COVID-19 tailwinds in 2020. The company forecast continued supply chain pressure owing to higher demand levels and inflationary pressure in key commodities in fiscal 2021.

Quarter Ending	09/2020
Report Date	Nov 23, 2020
Sales Surprise	13.32%
EPS Surprise	600.00%
Quarterly EPS	0.25
Annual EPS (TTM)	2.27

Recent News

Central Garden & Pet's DoMyOwn Buyout to Boost Sales – Jan 6, 2020

Central Garden & Pet acquired DoMyOwn.com (DoMyOwn), which is a fast-growing online retailer of professional-grade control products across the United States. The deal adds best-in-class e-commerce fulfillment platform and digital capabilities to the company's portfolio. We note that the transaction was completed on Dec 18, 2020, and terms of the deal including purchase price have been kept under wraps.

Central Garden's Green Garden Buyout to Boost Portfolio – Dec 31, 2020

Central Garden & Pet has agreed to buy Green Garden Products ("Green Garden") for \$532 million. Headquartered in Norton, MA, Green Garden is a key provider of vegetables, seed starters, herb and flower seed packets, and plant nutrients across North America. The deal, which is subject to customary closing conditions and regulatory approval, will conclude in second-quarter fiscal 2021.

Central Garden's Hopewell Buyout to Boost Garden Wing – Dec 17, 2020

Central Garden & Pet has agreed to buy Hopewell Nursery. This deal, which follows the addition of Bell Nursery to the company's portfolio in 2018, is likely to conclude on Dec 31. However, other terms of the deal including purchase price remain undisclosed. Hopewell Nursery is a live goods grower that caters to retail nurseries, landscape contractors, wholesalers and garden centers in the Northeast.

Valuation

Central Garden & Pet Company shares are up 15.1% in the past six months and 28.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 44.3% and 28.4%, respectively, over the past six months. Over the past year, the Zacks sub-industry and the sector are up 29% and 15.8%, respectively.

The S&P 500 index is up 18.5% in the past six months and 18% in the past year.

The stock is currently trading at 19.74X forward 12-month earnings, which compares to 29.67X for the Zacks sub-industry, 34.43X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.29X and as low as 12.32X, with a 5-year median of 19.74X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 20.9X forward 12-month earnings.

The table below shows summary valuation data for CENT

Valuation Multiples - CENT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.74	29.67	34.43	23.35
	5-Year High	26.29	26.67	35.23	23.79
	5-Year Low	12.32	10.31	16.19	15.3
	5-Year Median	19.74	16.13	19.97	17.83
P/S F12M	Current	0.85	1.78	2.94	4.59
	5-Year High	1.05	1.78	2.94	4.59
	5-Year Low	0.36	0.57	1.7	3.2
	5-Year Median	0.8	0.95	2.48	3.68
EV/EBITDA TTM	Current	8.97	11.13	13	17.52
	5-Year High	14.99	23.03	17.98	17.52
	5-Year Low	6.96	4.59	8.28	9.53
	5-Year Median	10.01	11.35	12.21	13.23

As of 01/20/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
SP Plus Corporation (SP)	Outperform	4
Aphria Inc. (APHA)	Neutral	3
CHEWY INC (CHWY)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Prestige Consumer Healthcare Inc. (PBH)	Neutral	3
Party City Holdco Inc. (PARTY)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3
Spectrum Brands Holdings Inc. (SPB)	Neutral	3

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

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	CENT	X Industry	S&P 500	CHWY	GIS	SPB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	A	A
Market Cap	2.28 B	361.57 M	27.30 B	43.08 B	33.84 B	3.47 B
# of Analysts	3	2.5	13	7	8	3
Dividend Yield	0.00%	0.00%	1.43%	0.00%	3.69%	2.09%
Value Score	A	-	-	F	A	A
Cash/Price	0.30	0.09	0.06	0.01	0.08	0.15
EV/EBITDA	9.05	8.65	14.98	-192.00	11.53	11.27
PEG F1	2.81	1.39	2.59	NA	1.97	0.79
P/B	2.11	2.88	3.79	NA	3.82	2.45
P/CF	12.58	11.27	14.64	NA	12.05	9.54
P/E F1	20.21	16.17	20.84	NA	14.78	16.05
P/S TTM	0.85	0.87	3.02	6.67	1.85	0.87
Earnings Yield	4.98%	6.03%	4.68%	-0.34%	6.76%	6.23%
Debt/Equity	0.64	0.61	0.70	0.00	1.24	1.74
Cash Flow (\$/share)	3.30	0.73	6.92	-0.55	4.59	8.43
Growth Score	A	-	-	A	B	A
Historical EPS Growth (3-5 Years)	13.18%	2.72%	9.72%	NA	5.36%	NA
Projected EPS Growth (F1/F0)	-8.41%	13.47%	12.43%	-20.69%	3.74%	22.28%
Current Cash Flow Growth	24.71%	2.91%	5.20%	-5.57%	9.11%	-25.49%
Historical Cash Flow Growth (3-5 Years)	20.10%	13.95%	8.36%	NA	3.48%	55.21%
Current Ratio	3.46	1.58	1.38	0.86	0.76	1.83
Debt/Capital	39.17%	39.17%	41.72%	NA	55.30%	63.48%
Net Margin	4.48%	2.12%	10.44%	-2.70%	13.16%	2.46%
Return on Equity	12.03%	7.45%	15.37%	NA	28.60%	13.35%
Sales/Assets	1.21	1.01	0.50	5.33	0.59	0.78
Projected Sales Growth (F1/F0)	-0.80%	2.92%	6.13%	45.77%	1.13%	4.99%
Momentum Score	F	-	-	F	A	A
Daily Price Change	0.63%	0.00%	0.55%	-2.73%	-0.59%	-1.58%
1-Week Price Change	0.10%	0.00%	-0.33%	11.60%	-0.28%	-0.31%
4-Week Price Change	11.69%	3.01%	4.35%	2.26%	-6.19%	6.92%
12-Week Price Change	4.84%	17.84%	20.58%	44.97%	-7.02%	40.41%
52-Week Price Change	28.15%	28.40%	7.10%	259.72%	2.52%	31.77%
20-Day Average Volume (Shares)	64,806	34,587	1,542,398	3,067,327	3,983,569	249,817
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-2.51%	0.33%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.12%	-2.51%	0.33%	1.01%
EPS F1 Estimate 12-Week Change	2.99%	2.99%	2.31%	16.00%	3.99%	16.77%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-11.11%	0.68%	-5.28%

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	A
Growth Score	A
Momentum Score	F
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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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