

Church & Dwight(CHD)

\$93.30 (As of 09/04/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

Church & Dwight has outpaced the industry year to date. The company has been gaining from rising consumer demand for its products amid coronavirus. This also boosted its second-quarter 2020 results, wherein top and bottom lines rose year over year and beat the consensus mark. Results gained from robust household and personal care businesses on consumers' shifted preference for essential products amid the coronavirus outbreak. Further, e-commerce sales played a strong role, with more consumers buying online. The company continued to see strength in its organic sales and the Consumer Domestic segment. However, SG&A costs increased and the company also saw high manufacturing costs related to COVID-19. Management expects gross margin to drop in the second half due to new product promotional support and certain additional investments.

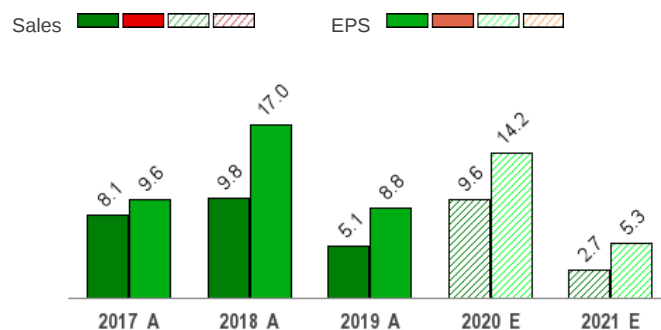
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$98.96 - \$47.98
20-Day Average Volume (Shares)	1,158,580
Market Cap	\$23.1 B
Year-To-Date Price Change	32.6%
Beta	0.39
Dividend / Dividend Yield	\$0.96 / 1.0%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 21% (52 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	3.8%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	33.2
P/E F1	33.1
PEG F1	3.9
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,197 E	1,230 E	1,236 E	1,275 E	4,906 E
2020	1,165 A	1,194 A	1,193 E	1,225 E	4,778 E
2019	1,045 A	1,079 A	1,089 A	1,144 A	4,358 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.85 E	\$0.71 E	\$0.75 E	\$0.66 E	\$2.97 E
2020	\$0.83 A	\$0.77 A	\$0.66 E	\$0.56 E	\$2.82 E
2019	\$0.70 A	\$0.57 A	\$0.66 A	\$0.55 A	\$2.47 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 09/04/2020. The reports text is as of 09/07/2020.

Overview

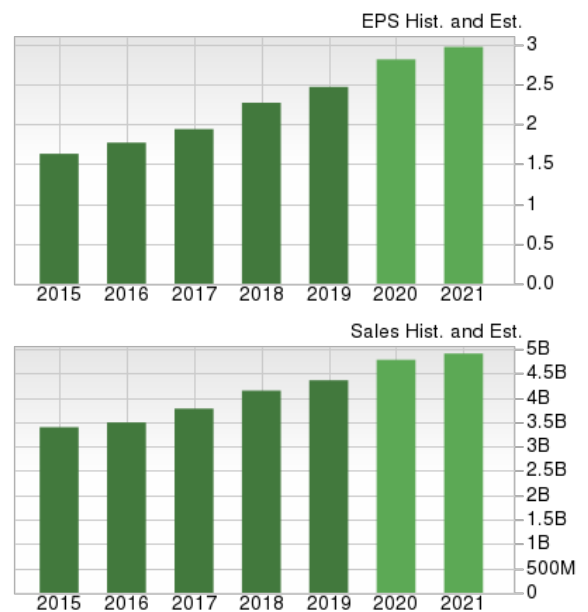
Founded in 1846 and based in Ewing, NJ , Church & Dwight Co., Inc. develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda, a natural product that cleans, deodorized, leavens and buffers.

The company operates in six countries (Canada, Mexico, U.K., France, Australia and Brazil) and exports to over 90 other countries. Approximately 16% of the company's net sales came from outside the U.S. in 2016.

The company has 11 key brands, including ARM & HAMMER, Trojan, OxiClean, Spinbrush, First Response, Nair, Orajel, Xtra, Water Pik, VMS and Batiste. The company's ARM & HAMMER brand is one of the nation's most trusted trademarks for a broad range of consumer and specialty products and its products are sold under ARM & HAMMER liquid and powder laundry detergent, ARM & HAMMER cat litter, ARM & HAMMER dental care and ARM & HAMMER baking soda. The remaining nine power brands were acquired by the company and added to its portfolio in 2001.

The company's business is divided into three primary segments, Consumer Domestic, Consumer International and Specialty Products.

- The **Consumer Domestic** segment (75.9% of 2019 sales) includes eight power brands, ARM & HAMMER, Trojan, First Response, Nair, Spinbrush, OxiClean, Orajel and XTRA and other household and personal care products.
- The **Consumer International** segment (17.4% of 2019 sales) sells a variety of household and personal care products in international markets, including Canada, Europe, Australia, Mexico and Brazil.
- The **Specialty Products** segment (6.9% of 2019 sales) is the largest U.S. producer of sodium bicarbonate, which it sells together with other specialty inorganic chemicals for a variety of industrial, institutional, medical and food applications. This segment also sells a range of animal nutrition and specialty cleaning products.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Coronavirus-Led Demand Boosts Q2 Results & View, Stock Gains:** Shares of Church & Dwight have gained 33.8% year to date compared with the industry's growth of 12%. The company has been gaining from rising consumer demand for its products amid the coronavirus-led crisis. This also boosted second-quarter 2020 results, wherein both top and bottom lines improved year over year and beat the Zacks Consensus Estimate. Earnings were backed by solid sales, improved gross margin and reduced marketing costs. Results gained from the robust household and personal care businesses owing to consumers' shifted preference for essential products amid the coronavirus outbreak. In this regard, the company witnessed double-digit growth in the consumption of products like gummy vitamins, women's hair removal, cleaners and baking soda. Markedly, online sales also remained sturdy.

Church & Dwight with a strong brand portfolio and constant innovation is well-positioned for growth. Moreover, the company's strategic buyouts are encouraging.

Encouraged with its results so far in 2020, management raised its sales and earnings guidance for 2020. The company now anticipates sales growth of 9-10% compared with 6.5% growth mentioned earlier. For 2020, adjusted earnings per share are expected to grow 13%, higher than the previously mentioned 7-9% increase. Notably, Church & Dwight had earlier announced that all its products have been categorized as essential commodities, per the requirements and guidance of the government. Hence, the company has been witnessing significant increase in demand for its products, especially household cleaning products as consumers are focusing on increased cleanliness. Also, the demand for brands like FLAWLESS is benefiting from elevated at-home grooming sessions. Management has undertaken steps to increase short-term production capacity for its cleaning and healthcare products. Further, the company has been working with retail associates and suppliers to ensure a smooth supply chain and support the increased demand.

- ▲ **Impressive Organic & Online Sales Trend:** Church & Dwight have been witnessing organic sales growth for a while now. In the second quarter of 2020, organic sales rose 8.4% on the back of increased consumption, reduced couponing and retail inventory restocking. The uptick was fueled by a positive product mix and pricing, and a rise in volumes of 3.5% and 4.9%, respectively. Prior to this, organic sales improved 9.2% in the first quarter and 4.4%, 3.6%, 4.9% and 4.5% in the fourth, third, second and first quarters of 2019, respectively. Organic sales are now expected to increase 7-8% in 2020. Earlier, management guided 3.5% growth in organic sales.

Further, Church & Dwight's e-commerce sales have been playing a strong role amid the pandemic, with more consumers buying online. The company's online sales surged 72% with growth in all retailer websites. Online sales formed 13% of the top line in the second quarter, surpassing management's goal of reaching 9% for 2020. The company expects online sales to remain equally solid in the second half of 2020.

- ▲ **Robust Acquisitions Strengthen Portfolio:** Church & Dwight had a long history of acquisitions. The company started with only one brand, i.e. ARM & HAMMER and since then it has acquired a number of brands which are generally number-one or number-two brands with high margin and have been contributing significantly toward top-line growth. Progressing along these lines, we note that the buyout of FLAWLESS has been a prudent addition to Church & Dwight's portfolio. Sales in the FLAWLESS brand contributed to the company's Consumer Domestic segment results in the second quarter of 2020. The brand witnessed robust consumption growth from May to July due to customers' reduced access to salons. The brand is poised to keep gaining from rising at-home grooming trends, and management has solid advertising plans in place for FLAWLESS in the second half of 2020. Some of the previous noteworthy acquisitions of the company include WATERPIK, Agro BioSciences, and VIVISCAL business. Prior to that, the acquisitions of ANUSOL and RECTINOL brands from Johnson & Johnson in December 2016 helped the company boost its business internationally.

- ▲ **Impressive Brand Portfolio and Innovation Aids Market Share:** Church & Dwight develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda. The company, which was started in 1846 with just one brand, is now diversified with dozens of brands. It boasts power brands, including ARM & HAMMER, Trojan, OxiClean, Spinbrush, First Response, Nair, Orajel, Xtra, VMS, WATERPIK, FLAWLESS and Batiste, which represents majority of its consumer sales. Notably, the company earlier said that it looks forward to having 20 power brands in its portfolio over time. Additionally, the company's regular innovation helps in improving brand positions and market share in the consumer categories. We note that management remains focused on innovation and R&D spending for product development even amid the pandemic. Management believes that innovation remains the biggest driver for its top and bottom-line growth in future.

Notably, the company recently launched ARM & HAMMER laundry detergent called CLEAN & SIMPLE, which is touted to be at par with its bestselling product, namely ARM & HAMMER with OXICLEAN. Further, its BATISTE brand, belonging to the personal care unit, launched a line of waterless cleansing foam for normal, dry and curly hair. Apart from this, the company introduced NU RAZOR by FLAWLESS, which is a waterless whole-body hair removal product for women. The company also floated the WATERPIK WATER FOR WELLNESS showerhead product in the quarter under review. Moreover, its VITAFUSION gummy vitamins launched various items like Apple Cider Vinegar, Triple Immune Power, Organic Prenatal Multi and IRRESISTIBLE SKIN.

- ▲ **Financial Position:** Church & Dwight's long-term debt of \$1,811.4 million as of the end of the second quarter of 2020 (Jun 30, 2020) remained almost in line with the previous quarter's level. Further, the company had cash and cash equivalents of \$451.7 million, while its short-term debt stood at \$65.8 million as of Jun 30. Apart from this, at a juncture where many companies are suspending dividend payments to protect financial flexibility amid the pandemic, Church & Dwight has been committed to regular dividend payments. The company declared a quarterly dividend of 24 cents per share on Jul 29. Notably, the company has a dividend payout of 34.2%, a dividend yield of 1% and a free cash flow yield of 4.2%. With an annual free cash flow return on investment of 22.7%, the dividend payment is likely to be sustainable.

Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Church & Dwight looks pretty overvalued when compared with the industry as well as the S&P 500. This indicates limited room for upside potential. The stock has a trailing 12-month P/E ratio of 34.93, which is above the median level of 28.76 but in line with the high level scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 21.48 and 23.81, respectively.
- ▼ **High Costs & Margin Concerns:** The company is grappling with rise in expenses such as SG&A costs. Notably, adjusted SG&A expenses increased 30 bps in the second quarter of 2020 due to impacts of acquisitions, elevated incentive compensation, and R&D investments. Additionally, the company witnessed escalated manufacturing costs due to COVID-19 supply-chain expenses. Management expects gross margin to fall in the second half due to new product promotional support, FLAWLESS accounting effect, increased tariffs on WATERPIK and additional investments in manufacturing and distribution capacity. Incidentally, management plans to make additional investments to boost manufacturing, R&D, consumer research, digital advertising, new product development and predictive analytics in the second half of 2020, which is likely to spike up costs.
- ▼ **Competitive Pressure:** Church & Dwight faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Procter & Gamble on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share.
- ▼ **Macroeconomic Headwinds:** Church & Dwight remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower margin products, thereby impacting margins.
- ▼ **Currency Headwinds:** Church & Dwight's performance is exposed to volatility in foreign currency translations, as it has a significant presence in international markets and undertakes business expansion efforts frequently. This is a persistent threat to the company's sales and profitability.

Church & Dwight is reeling under increasing SG&A costs. Also, management expects gross margin to fall in the second half due to new product promotional support and certain investments.

Last Earnings Report

Church & Dwight Q2 Earnings & Sales Beat Estimates

Church & Dwight reported robust second-quarter 2020 results, with the top and bottom lines improving year over year. Also, sales and earnings grew year over year. Results gained from the robust household and personal care businesses on consumers' shifted preference for essential products amid the coronavirus outbreak. Moreover, management is encouraged with its results so far in 2020. Incidentally, the company is raising its sales and earnings guidance for 2020.

Church & Dwight posted adjusted earnings of 77 cents per share that surpassed the Zacks Consensus Estimate of 63 cents and improved 35.1% from the year-ago quarter's level.

Net sales of \$1,194.3 million advanced 10.6% year over year. Moreover, the top line surpassed the Zacks Consensus Estimate of \$1,150.8 million. Results were backed by solid demand for various products stemming from the coronavirus outbreak.

Organic sales rose 8.4% on the back of increased consumption, reduced couponing and retail inventory restocking. The uptick was fueled by a positive product mix and pricing, and a rise in volumes of 3.5% and 4.9%, respectively.

Gross margin expanded 220 basis points (bps) to 46.8% on improved pricing, lower promotional costs and couponing. Also, enhanced productivity was a reason. These were somewhat offset by increased manufacturing expenses, costs related to the COVID-19 outbreak and currency headwinds. Also, marketing expenses fell 5.3% to \$122.3 million. As a percentage of sales, it contracted 180 bps to 10.2%. SG&A expenses increased 13.1% to \$186.6 million. As a percentage of sales, SG&A expenses increased 30 bps to 15.6%.

Segment Details

Consumer Domestic: Net sales of the segment rose 13.6% to \$931.1 million due to higher household and personal care sales along with gains from acquisitions. Organic sales improved 10.7%, driven by a positive impact of 4.4% from price and product mix as well as 6.3% from higher volumes. The primary growth drivers in the segment were VITAFUSION and L'IL CRITTERS gummy vitamins, ARM & HAMMER liquid laundry detergent, OXICLEAN stain fighters, ARM & HAMMER laundry detergent scent boosters, FLAWLESS women's hair removal, ARM & HAMMER clumping cat litter, and baking soda.

Consumer International: Net sales of the segment inched up 0.5% to \$187.5 million. Organic sales improved 0.6% on favorable price and product mix of 1.3%. However, volumes edged down 0.7%. Organic sales gained from the strength in Global Markets Group, which was somewhat offset by a decline in Mexico and Europe.

Specialty Products: Sales in the segment increased 3% to \$75.7 million. Also, organic sales advanced 3% owing to higher volumes of 3.3%, while unfavorable pricing of 0.3% was a drag. Further, management stated that demand for dairy products is anticipated to improve during the second half of the year. Also, demand for prebiotic and probiotic products remained strong.

Other Financial Updates

Church & Dwight ended the quarter with cash and cash equivalents of \$451.7 million, long-term debt of \$1,811.4 million, and total shareholders' equity of \$2,998.8 million.

For the six months ended Jun 30, 2020, cash flow from operating activities was \$598.6 million and the company incurred a capital expenditure of \$30.9 million.

Other Developments

It recently launched ARM & HAMMER laundry detergent called CLEAN & SIMPLE, which is touted to be at par with its bestselling product, namely ARM & HAMMER with OXICLEAN. Further, its BATISTE brand, belonging to the personal care unit, launched a line of waterless cleansing foam for normal, dry and curly hair. Apart from this, the company introduced NU RAZOR by FLAWLESS, which is a waterless whole-body hair removal product for women. The company also floated the WATERPIK WATER FOR WELLNESS showerhead product in the quarter under review. Moreover, its VITAFUSION gummy vitamins launched various items like Apple Cider Vinegar, Triple Immune Power, Organic Prenatal Multi and IRRESISTIBLE SKIN.

2020 Outlook

The company now anticipates sales growth of 9-10% compared with 6.5% growth mentioned earlier. Organic sales are now expected to increase 7-8%. Earlier, management guided 3.5% growth in organic sales. For 2020, adjusted earnings per share are expected to grow 13%, higher than the previously mentioned 7-9% increase.

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	3.78%
EPS Surprise	22.22%
Quarterly EPS	0.77
Annual EPS (TTM)	2.81

Recent News

Church & Dwight Declares Dividend – Jul 29, 2020

Church & Dwight's board of directors declared a regular quarterly dividend of 24 cents a share. The dividend will be paid on Sep 1, 2020 to stockholders of record at the close of business on Aug 14, 2020. It is the company's 478th regular consecutive quarterly dividend.

Church & Dwight Facilities Operational Even Amid Coronavirus- Mar 25, 2020

As per the requirements and guidance of the government, Church & Dwight announced that all its products have been categorized as essential commodities. Hence, the company informed that all its production facilities and distribution centers are operational even amid the coronavirus outbreak. In fact, for March, Church & Dwight has been witnessing a significant increase in demand for its products, including Vitafusion gummy vitamins, Simply Saline and Sterimar nasal hygiene, among others. The company expects this trend to continue in the second quarter of 2020.

Moreover, management has undertaken steps to increase short-term production capacity for its cleaning and healthcare products. Apart from this, Church & Dwight is making efforts to ensure undisrupted supply of its products to support the increased demand.

Meanwhile, Church & Dwight has enhanced the sanitization process and implemented work from home for several workers as precautionary measures. Also, the company has been undertaking various practices like social distancing and restrictions on business travel for its employees, among other moves, in an attempt to contain the spread of the deadly coronavirus.

Also, in order to enhance its financial flexibility amid the coronavirus outbreak, the company announced that it has drawn down \$825 million out of its \$1-billion revolving credit facility. Consequently, Church & Dwight's cash in hand is likely to be nearly \$1 billion as of Mar 31.

Valuation

Church & Dwight shares are up 33.8% year to date period and 28.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 12% but the Zacks Consumer Staples sector is down 3.7% in the year-to-date period. Over the past year, the Zacks sub-industry is up 10.2% but the sector is down 1.6%.

The S&P 500 index is up 3.4% in the year-to-date period and 12.8% in the past year.

The stock is currently trading at 31.93X forward 12-month earnings, which compares to 23.9X for the Zacks sub-industry, 20.3X for the Zacks sector and 22.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.64X and as low as 19.58X, with a 5-year median of 25.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$98 price target reflects 33.54X forward 12-month earnings.

The table below shows summary valuation data for CHD

Valuation Multiples - CHD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	31.93	23.9	20.3	22.86
	5-Year High	33.64	23.9	22.37	22.86
	5-Year Low	19.58	17.89	16.63	15.25
	5-Year Median	25.72	21.29	19.62	17.6
P/S F12M	Current	4.75	2.87	9.66	4.19
	5-Year High	4.99	2.87	11.15	4.19
	5-Year Low	2.69	2.02	8.12	2.53
	5-Year Median	3.47	2.35	9.89	3.07
EV/EBITDA F12M	Current	21.42	12.01	35.49	12.8
	5-Year High	22	13.02	37.49	14.14
	5-Year Low	13.44	9.24	25.79	9.05
	5-Year Median	15.72	10.87	33.84	11.03

As of 09/04/2020

Industry Analysis Zacks Industry Rank: Top 21% (52 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Prestige Consumer Healthcare Inc. (PBH)	Outperform	2
Unilever NV (UN)	Outperform	2
ColgatePalmolive Company (CL)	Neutral	3
The Clorox Company (CLX)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
Newell Brands Inc. (NWL)	Neutral	2
ProcterGamble Company The (PG)	Neutral	3
Unilever PLC (UL)	Neutral	2

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

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CHD	X Industry	S&P 500	CL	CLX	PG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	B	B
Market Cap	23.07 B	66.20 B	23.38 B	66.20 B	26.82 B	343.47 B
# of Analysts	10	7.5	14	8	7	9
Dividend Yield	1.03%	1.97%	1.62%	2.28%	2.09%	2.29%
Value Score	D	-	-	C	D	D
Cash/Price	0.02	0.04	0.07	0.01	0.03	0.05
EV/EBITDA	23.87	18.18	13.13	18.18	19.63	18.21
PEG F1	3.86	3.82	2.96	4.43	3.90	3.45
P/B	7.69	5.60	3.22	90.44	29.54	7.47
P/CF	28.62	20.76	12.65	22.36	23.97	20.76
P/E F1	33.09	24.48	21.59	26.11	27.39	25.56
P/S TTM	5.02	4.07	2.44	4.15	3.99	4.84
Earnings Yield	3.02%	4.09%	4.42%	3.83%	3.65%	3.91%
Debt/Equity	0.60	0.60	0.70	9.40	3.06	0.51
Cash Flow (\$/share)	3.26	3.45	6.93	3.45	8.87	6.65
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	12.34%	8.08%	10.41%	0.87%	8.08%	6.31%
Projected EPS Growth (F1/F0)	13.97%	3.43%	-4.75%	4.51%	5.43%	5.43%
Current Cash Flow Growth	12.70%	11.90%	5.22%	-4.58%	11.90%	11.93%
Historical Cash Flow Growth (3-5 Years)	9.63%	5.95%	8.49%	-1.27%	7.62%	2.25%
Current Ratio	1.28	0.92	1.35	0.92	1.42	0.85
Debt/Capital	37.66%	37.66%	42.95%	90.39%	75.38%	33.43%
Net Margin	15.70%	14.84%	10.25%	16.13%	13.97%	18.36%
Return on Equity	25.58%	27.56%	14.59%	559.34%	138.70%	29.53%
Sales/Assets	0.66	0.86	0.50	1.06	1.17	0.61
Projected Sales Growth (F1/F0)	9.44%	1.84%	-1.42%	1.84%	3.30%	2.67%
Momentum Score	D	-	-	C	C	C
Daily Price Change	-1.02%	-1.04%	-0.30%	-0.59%	-1.94%	-0.22%
1-Week Price Change	-1.65%	0.82%	2.59%	0.86%	-4.06%	0.97%
4-Week Price Change	-1.91%	-1.91%	2.00%	1.78%	-10.01%	3.96%
12-Week Price Change	25.37%	8.66%	10.57%	5.62%	3.70%	18.66%
52-Week Price Change	20.39%	12.38%	1.69%	3.93%	31.02%	12.38%
20-Day Average Volume (Shares)	1,158,580	908,973	1,827,096	3,104,283	1,447,591	5,906,677
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	3.49%	4.06%	3.89%	3.32%	8.38%	3.60%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.77%	-0.09%

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	D
Growth Score	A
Momentum Score	D
VGM Score	B

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

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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.