

## Church & Dwight(CHD)

**\$72.92** (As of 05/27/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/27/19)

Prior Recommendation: NA

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: A

### Summary

Church & Dwight's shares have outpaced the industry year to date. The company has been gaining from rising consumer demand for its products amid coronavirus. This also boosted its first-quarter 2020 results, wherein top and bottom lines rose year over year and beat the consensus mark. Results gained from increased pantry loading of essentials by consumers in March. Both household and personal care businesses performed well. Further, e-commerce sales played a strong role, with more consumers buying online. The company continued to see strength in its organic sales and international business. However, Church & Dwight's SG&A costs increased. Also, the company incurred high costs related to COVID-19. Apart from this, reduced milk demand might weigh on the dairy industry and affect the company's Specialty Products unit.

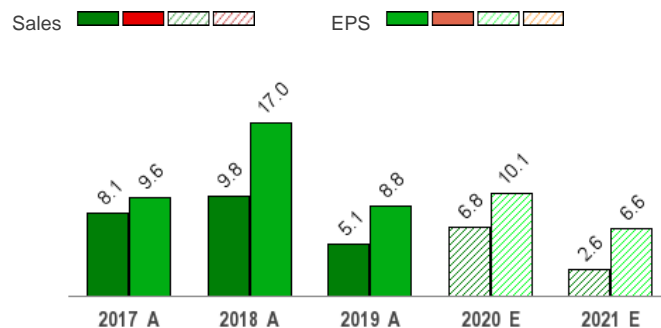
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$80.99 - \$47.98
20 Day Average Volume (sh)	1,620,246
Market Cap	\$17.9 B
YTD Price Change	3.7%
Beta	0.31
Dividend / Div Yld	\$0.96 / 1.3%
Industry	<a href="#">Soap and Cleaning Materials</a>
Zacks Industry Rank	Top 28% (68 out of 248)

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



Last EPS Surprise	9.2%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	1.2%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	27.9
P/E F1	26.8
PEG F1	3.1
P/S TTM	4.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,159 E	1,196 E	1,206 E	1,238 E	4,777 E
2020	1,165 A	1,152 E	1,153 E	1,185 E	4,654 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	\$0.67 E	\$0.76 E	\$0.64 E	\$2.90 E
2020	\$0.83 A	\$0.63 E	\$0.68 E	\$0.57 E	\$2.72 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 05/27/2020. The reports text is as of 05/28/2020.

## Overview

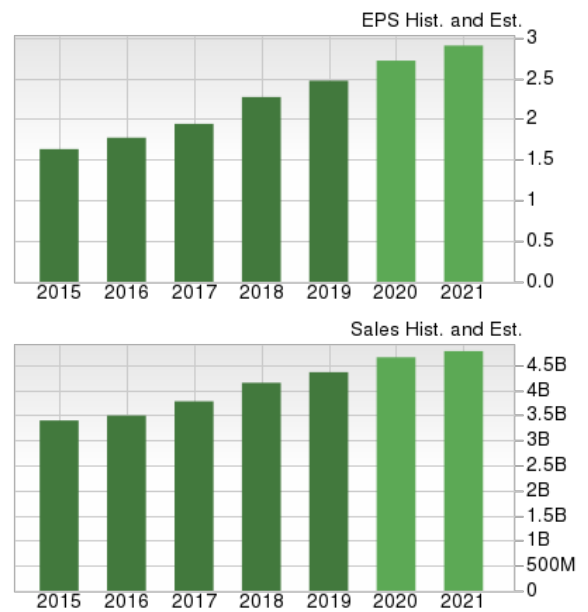
Founded in 1846 and based in Ewing, NJ, Church & Dwight Co., Inc. develops, manufactures and markets a broad range of household, personal care and specialty products. It is the leading U.S. producer of sodium bicarbonate, popularly known as baking soda, a natural product that cleans, deodorizes, leavens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



## Reasons To Buy:

▲ **Coronavirus-Led Demand Boosts Q1 Results, Stock Gains:** Shares of Church & Dwight have gained about 4% year to date against the industry's decline of 6.7%. The company has been gaining from rising consumer demand for its products amid the coronavirus-led crisis. This also boosted the company's first-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. Sales gained from increased hoarding of essentials by consumers in March. To this end, the company witnessed a 30% rise in the consumption for combined U.S. categories. Impressive growth in most of its categories contributed to quarterly results. In this regard, both household and personal care businesses performed well, with consumers' shifting preference for essential products. Further, e-commerce sales played a strong role, with more consumers buying online. The company saw growth in all retailer websites and anticipates surpassing its online sales growth goal of 9% in 2020.

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

Notably, Church & Dwight had recently 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. Thus, Church & Dwight is seeing high demand for brands like Vitafusion gummy vitamins, OxiClean additives, ARM & HAMMER SIMPLY SALINE, STERIMAR nasal hygiene products and ARM & HAMMER Baking Soda, among others. 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 is working with retail associates and suppliers to ensure a smooth supply chain and support the increased demand.

- ▲ **Impressive Organic Sales Trend:** Church & Dwight have been witnessing organic sales growth for a while now. In the first quarter of 2020, organic sales grew 9.2% and surpassed management's roughly 3% growth projection. The uptick was fueled by a positive product mix and pricing, and a rise in volumes to the tune of 2.3% and 6.9%, respectively. Organic sales in the quarter were backed by global consumer increase of 9.6%, courtesy of pantry loading amid the pandemic. Prior to this, organic sales improved 4.4%, 3.6%, 4.9% and 4.5% in the fourth, third, second and first quarters of 2019, respectively.
- ▲ **Strong Consumer International Business:** The company's consumer international business has been consistently contributing to organic sales growth of the company. In first-quarter 2020, net sales at the segment rose 6.4% to \$198.6 million, backed by broad-based sales growth in household and personal care products as well as gains from acquisitions. Organic sales increased 7.1% on higher volumes of 4.9% as well as favorable price and product mix of 2.2%. Organic sales were mainly driven by BATISTE dry shampoo in Germany, ARM & HAMMER cat litter & liquid laundry detergent in Canada, FEMFRESH feminine hygiene portfolio in Australia, CURASH baby wipes and STERIMAR nasal spray in the U.K. Prior to this, organic sales in this segment increased 10.6%, 7.1%, 9.1% and 8.5% in the fourth, third, second and first quarters of 2019, respectively. As international arena remains a bright spot for the company, it continues to invest in this segment to sustain its strong sales growth.
- ▲ **Robust Acquisitions Strengthen Portfolio:** Church & Dwight had a long history of acquisitions. 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 continued to rise in the first quarter of 2020 as well. 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.
- ▲ **Financial Position:** Church & Dwight's long-term debt of \$1,810.8 million as of the end of the first quarter of 2020 (Mar 31, 2020) remained almost in line with the previous quarter level. Further, its cash and cash equivalents of \$1,046.6 million appears sufficient to meet the company's short-term borrowings of \$971.9 million as of Mar 31. Apart from this, at a juncture where many companies are suspending dividend payments to protect financial flexibility amid the pandemic, Church & Dwight declared a quarterly dividend of 24 cents per share. This represents a 5.5% increase from the year-ago figure and is payable on Jun 1. Notably, the company has a dividend payout of 36.8%, a dividend yield of 1.3% and a free cash flow yield of 4.8%.
- ▲ **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. During its first-quarter conference call, management stated that it remains focused on innovation and R&D spending for product development even amid the pandemic.

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, has launched a line of waterless cleansing foam for normal, dry and curly hair. Apart from this, it introduced NU RAZOR by FLAWLESS, which is a waterless whole-body hair removal product for women. The company also noted that the WATERPIK WATER FOR WELLNESS showerheads product is due for launch in the second half of 2020.

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## 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. The stock has a trailing 12-month P/E ratio of 27.94, which is below the median level of 29.48, and the high level of 33.33. The trailing 12-month P/E ratio for the industry and the S&P 500 is pegged at 18.11 and 19.28, respectively.
- ▼ **High Costs a Concern:** The company is grappling with rise in expenses such as SG&A costs. Notably, adjusted SG&A expenses increased 40 bps in the first quarter of 2020 due to impacts of acquisitions. Additionally, the company witnessed escalated costs of some commodities. It also incurred high costs associated with COVID-19. Incidentally, the company spent about \$4 million as COVID-19-related costs in the first quarter, mainly for the month of April.
- ▼ **Dairy Space Challenges in Specialty Products:** Though the Specialty Products segment is benefiting from strength in the poultry industry, there has been an outlook reversal for the dairy space. The adverse impact of coronavirus may lead to reduced demand for milk and thereby dent the dairy industry.
- ▼ **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 marketing and SG&A costs. Also, lower milk demand may hurt Specialty Products segment.

## Last Earnings Report

### Church & Dwight's Q1 Earnings & Sales Beat Estimates

Church & Dwight reported first-quarter 2020 results, wherein adjusted earnings of 83 cents per share surpassed the Zacks Consensus Estimate of 76 cents and improved 13.7% year over year. The bottom line includes a positive impact of 8 cents related to the buyout of FLAWLESS and 1 cent associated with gains from the sale of the PERL WEISS toothpaste brand.

Net sales of \$1,165.2 million advanced 11.5% year over year. Moreover, the top line exceeded the Zacks Consensus Estimate of \$1,127 million. Results were backed by solid demand for essential products, such as VITAFUSION gummy vitamins, ARM & HAMMER SIMPLY SALINE and STERIMAR nasal hygiene products, ARM & HAMMER baking soda, ARM & HAMMER and XTRA laundry detergent, ARM & HAMMER cat litter, and KABOOM bathroom cleaner, stemming from the COVID-19 situation in March.

Organic sales rose 9.2% and surpassed management's roughly 3% growth projection. The uptick was fueled by a positive product mix and pricing, and a rise in volumes to the tune of 2.3% and 6.9%, respectively. Gross margin expanded 60 basis points (bps) to 45.7% on solid efforts, including pricing and productivity, which was somewhat offset by increased manufacturing expenses, costs related to COVID-19 and currency headwinds. Also, marketing expenses fell 1.7% to \$96.4 million. As a percentage of sales, it contracted 10 bps to 8.3%. Adjusted SG&A expenses increased 14.5% to \$151 million. As a percentage of sales, adjusted SG&A expenses increased 40 bps to 13%. Adjusted income from operations, as a percentage of sales, rose 40 bps to 27%.

### Segment Details

**Consumer Domestic:** Net sales of the segment rose 13.5% to \$891 million due to higher household and personal care sales along with gains from acquisitions. Organic sales improved 10.2%, driven by a positive impact of 2.8% from price and product mix as well as 7.4% from higher volumes. The primary growth drivers in the segment were ARM & HAMMER clumping cat litter and baking soda, ARM & HAMMER liquid laundry detergent, VITAFUSION and L'IL CRITTERS gummy vitamins, OXICLEAN stain fighters and BATISTE dry shampoo.

**Consumer International:** Net sales of the segment rose 6.4% to \$198.6 million, backed by broad-based sales growth in household and personal care products as well as gains from acquisitions. Organic sales increased 7.1% on higher volumes of 4.9% as well as favorable price and product mix of 2.2%. Organic sales were mainly driven by BATISTE dry shampoo in Germany, ARM & HAMMER cat litter & liquid laundry detergent in Canada, FEMFRESH feminine hygiene portfolio in Australia, CURASH baby wipes and STERIMAR nasal spray in the U.K.

**Specialty Products:** Sales in the segment increased 3.4% to \$75.6 million. Also, organic sales advanced 3.4% due to higher volumes of 6.7% and unfavorable pricing to the tune of 3.3%. Further, management stated that demand for dairy products declined due to sluggishness in the consumption of milk and cheese stemming from the ongoing COVID-19 situation. However, demand for poultry products remained strong.

### Other Financial Updates

Church & Dwight ended the quarter with cash and cash equivalents of \$890.9 million, long-term debt of \$1,810.8 million and total shareholders' equity of \$2,817.8 million. In the quarter under review, the company generated cash flow from operations of \$236.5 million and incurred a capital expenditure of \$16.8 million.

### Looking Ahead

Results gained from increased hoarding of essentials by consumers in March. To this end, the company witnessed a 30% rise in the consumption of all brands stemming from a sudden hike in demand. Also, it is struggling to restock inventories and store shelves with higher retailer orders and shipments in April. Further, impressive growth in most of its categories contributed to quarterly results. In this regard, both household and personal care businesses performed well, with consumers' shifting preference for essential products. Moreover, the specialty products division recorded its second successive quarter of organic sales growth backed by an improvement in the dairy industry.

Management remains focused on providing a continued supply of essentials during the second quarter to meet consumer demand. It projects year-over-year 8% sales growth for the month of April across the United States, backed by increased demand for household products and vitamins. Further, consumption in April is expected to remain positive with the shipment trend likely to reduce in May or June. Going ahead, the company remains well positioned with its broad product portfolio, solid balance sheet and cost-containment actions to overcome this ongoing hurdle.

However, management withdrew its 2020 guidance, given the unprecedented impacts of COVID-19 on consumer demand, global economy, supply-chain operations, foreign-currency translation, commodity expenses and government restrictions.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	3.46%
EPS Surprise	9.21%
Quarterly EPS	0.83
Annual EPS (TTM)	2.61

## Recent News

### 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 nearly 4% year to date period and down 0.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 6.7% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 0.2%, but the sector is down 9.3%.

The S&P 500 index is down 7% in the year-to-date period and up 7.3% in the past year.

The stock is currently trading at 26.12X forward 12-month earnings, which compares to 21.43X for the Zacks sub-industry, 19.03X for the Zacks sector and 21.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.55X and as low as 19.58X, with a 5-year median of 25.44X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$77 price target reflects 27.58X 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	26.12	21.43	19.03	21.75
	5-Year High	30.55	23.53	22.37	21.75
	5-Year Low	19.58	17.89	16.65	15.23
	5-Year Median	25.44	21.08	19.66	17.49
P/S F12M	Current	3.81	2.57	9.14	3.37
	5-Year High	4.35	2.72	11.16	3.44
	5-Year Low	2.69	1.94	8.1	2.53
	5-Year Median	3.42	2.34	9.89	3.01
EV/EBITDA F12M	Current	15.51	11.78	34.16	12.31
	5-Year High	19.25	13.56	37.75	12.65
	5-Year Low	12.16	9.25	29.77	9.05
	5-Year Median	15.1	10.84	34.08	10.82

As of 05/27/2020

## Industry Analysis Zacks Industry Rank: Top 28% (68 out of 248)



## Top Peers

Company (Ticker)	Rec	Rank
The Clorox Company (CLX)	Outperform	1
Prestige Consumer Healthcare Inc. (PBH)	Outperform	3
ColgatePalmolive Company (CL)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
Newell Brands Inc. (NWL)	Neutral	4
ProcterGamble Company The (PG)	Neutral	3
Unilever PLC (UL)	Neutral	4
Unilever NV (UN)	Neutral	4

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CHD	X Industry	S&P 500	CL	CLX	PG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	1	3
VGM Score	B	-	-	B	B	B
Market Cap	17.93 B	60.46 B	21.39 B	60.46 B	25.19 B	281.95 B
# of Analysts	11	7.5	14	9	6	9
Dividend Yield	1.32%	2.31%	1.97%	2.49%	2.12%	2.78%
Value Score	C	-	-	D	C	C
Cash/Price	0.06	0.06	0.06	0.01	0.02	0.06
EV/EBITDA	18.26	14.56	12.63	16.88	20.95	30.93
PEG Ratio	3.12	3.96	2.91	4.64	5.03	3.21
Price/Book (P/B)	6.36	5.47	2.99	177.31	36.24	6.26
Price/Cash Flow (P/CF)	22.37	10.49	11.80	20.45	25.15	19.43
P/E (F1)	26.81	22.96	21.42	24.62	29.02	22.99
Price/Sales (P/S)	4.00	3.88	2.29	3.80	3.96	4.01
Earnings Yield	3.73%	4.35%	4.44%	4.07%	3.45%	4.35%
Debt/Equity	0.64	0.64	0.76	21.51	3.69	0.52
Cash Flow (\$/share)	3.26	3.45	6.96	3.45	7.95	5.86
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	11.72%	6.59%	10.87%	0.72%	7.61%	5.01%
Proj. EPS Growth (F1/F0)	9.98%	-1.81%	-10.41%	1.30%	9.05%	9.59%
Curr. Cash Flow Growth	12.70%	1.99%	5.46%	-4.58%	1.11%	4.72%
Hist. Cash Flow Growth (3-5 yrs)	9.63%	5.95%	8.55%	-1.27%	5.39%	-0.93%
Current Ratio	1.03	0.96	1.29	0.96	0.98	0.83
Debt/Capital	39.12%	39.12%	44.54%	95.56%	78.68%	33.66%
Net Margin	14.96%	12.02%	10.59%	15.86%	13.67%	7.09%
Return on Equity	24.62%	26.89%	16.29%	942.99%	147.52%	29.15%
Sales/Assets	0.65	0.86	0.55	1.09	1.17	0.61
Proj. Sales Growth (F1/F0)	6.80%	0.00%	-2.34%	0.40%	5.00%	3.46%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	3.73%	1.67%	2.29%	1.67%	1.46%	1.66%
1 Week Price Chg	-2.27%	-0.86%	4.99%	2.61%	-5.36%	-1.75%
4 Week Price Chg	6.66%	0.85%	2.47%	0.61%	8.74%	-2.72%
12 Week Price Chg	-4.64%	-6.34%	-6.13%	-6.34%	15.93%	-8.52%
52 Week Price Chg	-0.61%	0.89%	0.67%	0.89%	35.69%	9.31%
20 Day Average Volume	1,620,246	1,449,831	2,423,651	4,388,429	1,967,480	7,644,627
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.19%	0.64%	-2.07%	0.86%	4.50%	0.00%
(F1) EPS Est 12 week change	1.56%	-7.03%	-16.07%	-3.88%	11.34%	-0.62%
(Q1) EPS Est Mthly Chg	3.00%	1.50%	-3.59%	-1.05%	4.16%	0.00%



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

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

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

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### Disclosures

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