

Colgate-Palmolive Co. (CL)

\$80.70 (As of 04/30/21)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Shares of Colgate have outpaced the industry in the past three months. The stock got a boost from the first-quarter 2021 results, wherein earnings were in line with the Zacks Consensus Estimate and sales beat the same. Moreover, both the top and bottom lines improved year over year backed by higher investments in premium innovation, digital transformation and advertising. Earnings and operating profit were aided by positive pricing in each segment. Robust pricing, productivity gains and funding-the-growth initiative aided gross margin. Also, its innovation and expansion strategy bode well. Management reiterated its previously stated guidance for 2021. However, deleverage in advertising and SG&A expenses as well as raw material cost inflations remain concerns. Also, elevated logistic expenses are likely to remain headwinds.

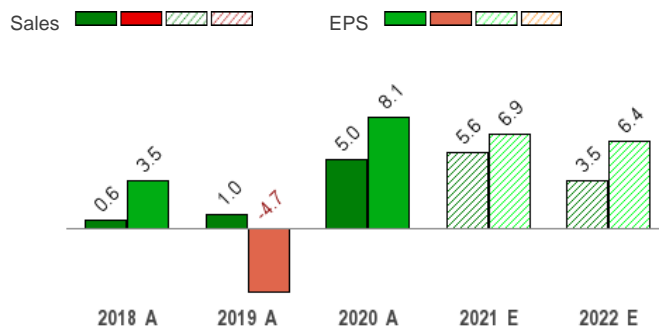
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$86.41 - \$65.54
20-Day Average Volume (Shares)	4,032,948
Market Cap	\$67.6 B
Year-To-Date Price Change	-6.7%
Beta	0.61
Dividend / Dividend Yield	\$1.80 / 2.3%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Bottom 13% (218 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.8%
EPS F1 Estimate 4-Week Change	-1.1%
Expected Report Date	NA
Earnings ESP	0.4%
P/E TTM	26.0
P/E F1	24.7
PEG F1	4.6
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,456 E	4,362 E	4,535 E	4,641 E	17,997 E
2021	4,344 A	4,243 E	4,393 E	4,485 E	17,387 E
2020	4,097 A	3,897 A	4,153 A	4,324 A	16,471 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.87 E	\$0.85 E	\$0.88 E	\$0.89 E	\$3.48 E
2021	\$0.80 A	\$0.80 E	\$0.83 E	\$0.83 E	\$3.27 E
2020	\$0.75 A	\$0.74 A	\$0.79 A	\$0.77 A	\$3.06 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 04/30/2021. The report's text and the analyst-provided price target are as of 05/03/2021.

Overview

Colgate-Palmolive Company's business strategy closely defines efforts to increase its leadership in key product categories through innovation in core businesses, tracking adjacent categories growth and expansion into new markets and channels. Due to the shift of consumer preference to organic and natural ingredients, the company is expanding its Naturals range, including Naturals toothpaste. It is ranked as a leading consumer goods company with global household penetration of 61.6%.

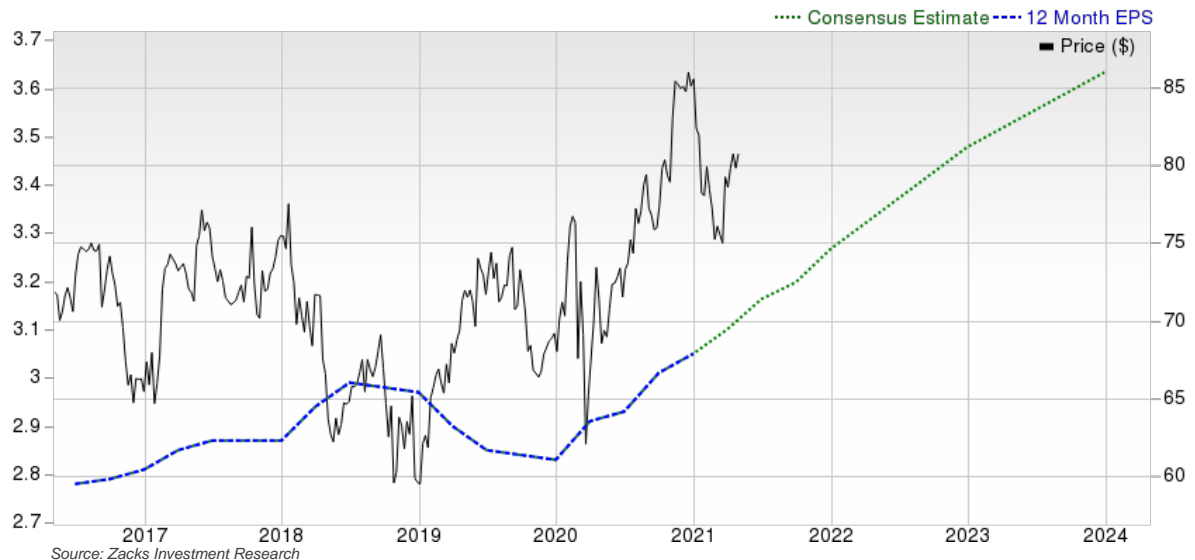
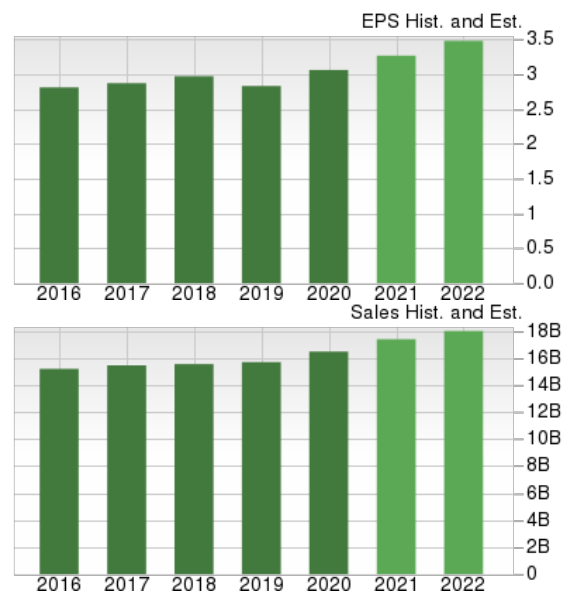
Colgate generated \$16.5 billion in revenues in 2020 and earnings of \$3.2 billion. It has a share of 39.8% in the global toothpaste market and 31.1% in the manual toothbrush market.

New York City-based Colgate-Palmolive is a global leader in the oral care hygiene market. It produces and distributes household, healthcare and personal care products.

The company sells its products in more than 200 countries around the world. Its business is tightly focused on four core categories including – Oral Care, Personal Care, Pet Nutrition and Home Care. Colgate-Palmolive operates through two business segments: (1) Oral, Personal and Home Care; and (2) Pet Nutrition.

Oral, Personal and Home Care: The company's portfolio of Oral, Personal and Home Care products include toothpaste, toothbrushes, mouthwash, bar and liquid hand soaps, shower gels, shampoos, conditioners, deodorants and antiperspirants, skin health products, dishwashing detergents, fabric conditioners, household cleaners and other similar items. The segment is managed geographically in five reportable operating segments: North America, Latin America, Europe, Asia Pacific and Africa/Eurasia. The Oral, Personal and Home Care products contributed 82.5% to total sales in 2020.

Pet Nutrition: The pet nutrition segment consists of pet food products for dogs and cats manufactured by Colgate-Palmolive's subsidiary, Hill's Pet Nutrition. These products are marketed under two brands - Hill's Science Diet and Hill's Prescription Diet. It contributed 17.5% to total sales in 2020.



Reasons To Buy:

▲ **Robust Q1 Results, Stock Outperforms:** Shares of Colgate have gained 2.3% in the past three months against the industry's decline of 7.3%. The company posted first-quarter 2021 results, wherein earnings were in line with the Zacks Consensus Estimate and sales beat the same. Moreover, both the top and bottom lines improved year over year. The company's strong results can be attributed to higher investments in premium innovation, digital transformation and advertising. During the quarter, earnings and operating profit benefited from positive pricing in each segment. Meanwhile, organic sales advanced 5%, on improved pricing, innovation and digital investments despite tough year-over-year comparisons due to pantry loading in the prior-year quarter, owing to the onset of the pandemic. Organic sales growth was mainly led by strength in the Africa/Eurasia, the Asia Pacific and Latin America segments.

Colgate is witnessing positive gross margin trend owing to robust pricing and productivity gains. Its premiumization, revenue growth management and funding-the-growth initiatives bode well.

▲ **Strong Gross Margin Aid Bottom Line:** Colgate has been witnessing gross margin expansion for the past few quarters driven by robust pricing and productivity gains. Notably, the company's commitment toward pricing efforts through premiumization and revenue growth management has been paying off. Moreover, its funding-the-growth endeavors are contributing to productivity growth. These have resulted in organic sales growth and gross margin expansion. In first-quarter 2021, adjusted gross profit margin of 60.7% increased 40 basis points (bps) from the prior-year quarter. Gross margin growth mainly reflected 170 bps of gains from pricing and 180 bps benefit from productivity, which more than offset the worsening raw materials environment. Driven by the strong gross margin and sales, the company's adjusted earnings rose 7% year over year.

▲ **Upbeat Outlook:** Despite the pandemic-related challenges, Colgate remains optimistic about its investments and growth strategies to steer through the challenges. Notably, the company is on track with the plans to increase advertising for its brands. Also, it has a robust innovation pipeline for the balance of the year across all product categories. Based on these, it reiterated its 2021 view. The company predicts net sales growth of 4-7%, with a low-single-digit favorable currency impact. Organic sales are likely to rise 3-5%, which is within its long-term target range. Further, it expects gross margin expansion on both GAAP and adjusted basis, with an increase in advertising investments. It anticipates GAAP earnings per share to increase in low to mid-single digits. Meanwhile, adjusted earnings per share are projected to grow in mid to high-single digits.

▲ **Innovation to Aid Business Growth:** Innovation and in-store implementation have been the guiding principles for Colgate's growth strategy over the years. The company's innovation strategy is focused on growing in adjacent categories and product segments. Further, it is focused on the premiumization of its Oral Care portfolio through major innovations. Backed by premium innovation, the company delivered high-single-digit growth in toothpaste in the first quarter, despite the absence of the solid growth in the year-ago period due to pantry loading. This also helped it drive high-single-digit growth in the Oral Care business. This growth can also be attributed to gains from innovation like Colgate Renewal in the United States, Colgate Enzyme Whitening toothpaste in China and the natural extracts line and Colgate Total Anti-Tartar Line in Latin America.

Also, its innovation efforts are highlighted by the continued expansion of the Naturals and Therapeutics divisions, as well as the Hello Products LLC buyout. The company recently partnered with Philips to introduce electric toothbrushes in Latin America, where the usage of electric toothbrush is low. This long-term deal will bring together world's number one oral care brand and number one manufacturer of sonic toothbrushes under a co-brand, namely Philips Colgate. This product line will come with a variety of electric toothbrushes at different prices. Further, the new brand will be available in limited countries in the said region.

▲ **Expanding in New Channels and Markets:** Expanding the availability of products, through enhanced distribution to newer markets and channels, is one of Colgate's priorities to improve organic sales. The company is aggressively expanding into faster growth channels while extending the geographic footprint of its brands. In 2019, the company expanded its portfolio by introducing pharmacy brands like elmex and meridol to newer markets. Moreover, it remains impressed with the performance of professional skincare businesses — Elta MD and PCA Skin — in spas and dermatologists. Further, the company expanded its premium skincare portfolio with the buyout of Filorga skincare business. Further, it is witnessing strong market share gains in North America and China, its two largest markets, with increased share gains across all other regions.

The company is also keen on expanding the availability of its products through the e-commerce channel. The company has increased its focus on this platform as more and more consumers are using online services for their essential needs, given the COVID-19 outbreak. The company ended 2020 with more than 50% growth in e-commerce, which has further accelerated in first-quarter 2021. The contribution of the e-commerce, as a percentage of sales, increased 260 bps year over year in the first quarter. The solid e-commerce business growth is backed by gains in Hill's, China and U.S. businesses.

▲ **Financial Flexibility:** Colgate ended first-quarter 2021 with cash and cash equivalents of \$995 million. As of Mar 31, 2021, the company had a total debt of \$7,833 million, which increased 3.1% from the prior quarter. Moreover, it delivered free cash flow before dividends of \$491 million at the end of the first quarter. Notably, the company has been regularly increasing its dividend every year since 2001. On Mar 11, 2021, the company approved a quarterly cash dividend of 45 cents per share, reflecting a 2.3% hike from the prior rate of 44 cents. The increased dividend will be paid out on May 14 to shareholders of record as of Apr 21, 2020. Notably, Colgate has a dividend payout ratio of 57.7%, annualized dividend yield of 2.2% and free cash flow yield of 4.5%. With an annual free cash flow return on investment of 41.66%, ahead of the industry's nearly 24.91%; the dividend payment is likely to be sustainable.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering the price-to-earnings (P/E) ratio, Colgate looks pretty overvalued compared with the industry. The stock has a trailing 12-month P/E ratio of 26.03X, which is above the median level of 25.89X and below the high level of 28.66X scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 18.79X for the industry. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Higher SG&A Expense:** Colgate is grappling with higher selling, general & administrative (SG&A) expenses for a while now. In first-quarter 2021, adjusted SG&A expenses increased 9% year over year to \$1,605 million. As a percentage of sales, SG&A expenses escalated 100 bps to 36.95%. This increase in SG&A expenses may be attributed to increases in advertising, higher logistics costs as well as investments related to product innovation. Notably, advertising expenses rose 50 bps as a percentage of sales in the reported quarter owing to strong activation on brand building, innovation and e-commerce. Meanwhile, higher logistics expenses were mainly attributed to increases in the United States. Excluding advertising and logistics, SG&A expense rate declined year-over-year. The company anticipates logistics costs to remain high in the quarters ahead, particularly in the United States, where costs have risen faster-than-anticipated. Additionally, the company is on track with the plans to increase advertising for its brands, which might further result in increased SG&A expense.
- ▼ **Raw Material Cost Inflation:** Although Colgate reported gross margin growth in the first quarter, the metric was largely impacted by the difficult raw materials environment across the globe. Notably, raw material cost inflation had a 310-bps impact on gross margin in the first quarter of 2021. This was mainly driven by higher cost of raw materials like resins, fats and oils, agriculture-related costs and the transactional impact from foreign exchange. Looking ahead, the company anticipates raw material prices to remain elevated throughout 2021.
- ▼ **Currency Headwinds Remain a Hurdle:** Despite pricing gains, Colgate's sales across some geographic regions continued to be hurt by adverse currency rates in first-quarter 2021. Currency had negative impacts of 7.5% in Latin America and 4.5% in Africa/Eurasia. Although management expects foreign currency to have a favorable impact of low-single digits in 2021, currency movement is likely to remain volatile.
- ▼ **Competitive Pressure:** Colgate faces intense competition from other well-established players in the consumer products industry, such as Church & Dwight, Clorox, and Proctor & 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, and in turn, dent its top- and bottom-line performances.

Higher advertising investments and logistics costs resulted in SG&A expenses deleverage in the first quarter. The company anticipates elevated logistics and advertising costs in the quarters ahead.

Last Earnings Report

Colgate Reports In-Line Q1 Earnings, Sales Beat

Colgate reported first-quarter 2021 results, wherein earnings were in line with the Zacks Consensus Estimate, while sales beat the same. Moreover, both top and bottom lines improved year over year. The company's strong results can be attributed to higher investments in premium innovation, digital transformation and advertising.

On a Base Business basis (adjusted non-GAAP), earnings of 80 cents per share rose 7% from the prior-year quarter and were in line with the Zacks Consensus Estimate. On a GAAP basis, earnings declined 4% to 80 cents per share in the quarter under review. Earnings and operating profit benefited from positive pricing in each segment.

Net sales of \$4,344 million improved 6% from the year-ago period and beat the Zacks Consensus Estimate of \$4,266 million. On an organic basis, the company's sales advanced 5%. Organic sales were aided by improved pricing, innovation and digital investments despite tough year-over-year comparisons due to pantry loading in the prior-year quarter, owing to the onset of the pandemic. Unit volumes increased 0.5% on both reported and organic basis, while pricing was up 4.5%.

Organic sales growth was mainly led by strength in the Africa/Eurasia, the Asia Pacific and Latin America segments. Moreover, foreign currency was a 1% tailwind in the quarter.

Adjusted gross profit margin of 60.7% increased 40 basis points (bps) from the prior-year quarter. In dollar terms, adjusted gross profit rose 6.8% to \$2,637 million.

Selling, general & administrative (SG&A) expenses increased 9% year over year to \$1,605 million. As a percentage of sales, SG&A expenses escalated 100 bps to 36.95%. Adjusted operating income of \$1,004 million in the first quarter advanced 5% year over year. Meanwhile, adjusted operating margin contracted 30 bps to 23.1% due to higher SG&A expenses, which more than offset improved gross margin.

Colgate's market share of manual toothbrushes has reached 30.6% year to date. Further, the company continued with its leadership position in the global toothpaste market, with a market share of 39.2%.

Segmental Discussion

North America's net sales (21% of total sales) declined 0.5%, reflecting a 6.5% fall in unit volumes, offset by 5.5% pricing gains and a 0.5% favorable currency. On an organic basis, sales dipped 1.5%, with organic volumes down 7%, mainly driven by a decline in the United States, which more than offset growth in Canada. Year to date, the company's share in the toothpaste market is at 34.1% and it is at 40.1% in the manual toothbrush market in the United States.

Latin America's net sales (21% of total sales) rose 2% year over year, as 8.5% gains in pricing and 1% volume growth more than offset the 7.5% negative currency impact. On an organic basis, sales were up 9.5%, led by growth in Brazil, Argentina, Mexico and Colombia. Organic volumes also grew 1% in the quarter.

Europe's net sales (16% of total sales) increased 6% year over year on a 1.5% rise in pricing and an 8% positive currency impact, offset by a 3.5% decline in unit volume. However, organic sales in Europe dropped 2%, driven by a 3.5% fall in organic volumes as well as declines in the U.K. and Germany. This was partly negated by organic sales growth in the Nordic region and Switzerland.

The **Asia Pacific** segment's net sales (18% of total sales) improved 16.5% on a reported basis and 11% on an organic basis. This growth is attributable to a 10.5% rise in unit volumes (both reported and organic), 0.5% pricing gains and a 5.5% favorable currency. Sales growth in the Asia Pacific was mainly led by the Greater China region, India, the Philippines and Thailand.

Africa/Eurasia's net sales (6% of total sales) increased 8.5% year over year due to a 5% rise in unit volumes (both reported and organic) and an 8% increase in pricing, offset by a 4.5% adverse impact of foreign exchange. Organic sales for Africa/Eurasia improved 13%, driven by gains in Turkey, Nigeria, South Africa and Russia.

Hill's Pet Nutrition's net sales (18% of total sales) grew 9.5% from the year-ago quarter on a reported basis and 7% on an organic basis. Results gained from a 3% increase in unit volumes (both reported and organic), 4% pricing growth and a 2.5% positive currency impact. Sales were aided by gains in the United States, Europe and Canada.

Other Financial Details

Colgate ended first-quarter 2021 with cash and cash equivalents of \$995 million, and total debt of \$7,833 million. Net cash provided by operating activities amounted to \$598 million as of Mar 31, 2021.

Outlook

The company anticipates volatility in consumer demand and currencies along with elevated raw material prices and logistics costs in the quarters ahead. However, it remains optimistic about its investments and growth strategies to steer through the challenges. Notably, the company is on track with the plans to increase advertising for its brands. Also, it has a robust innovation pipeline for the balance of the year across all product categories. Based on these, it reiterated its 2021 view.

The company predicts net sales growth of 4-7%, with a low-single-digit favorable currency impact. Organic sales are likely to rise 3-5%, which is

Quarter Ending	03/2021
Report Date	Jan 29, 2021
Sales Surprise	1.84%
EPS Surprise	0.00%
Quarterly EPS	0.80
Annual EPS (TTM)	3.10

within its long-term target range. Further, it expects gross margin expansion on both GAAP and adjusted basis, with an increase in advertising investments.

Additionally, the company anticipates GAAP earnings per share growth of low to mid-single digits. Meanwhile, adjusted earnings per share are projected to grow in mid to high-single digits.

Recent News

Colgate, Philips to Offer Electric Oral Care in Latin America – Mar 30, 2021

Colgate has partnered with Philips to introduce electric toothbrushes to the people of Latin America. This long-term deal will bring together world's number one oral care brand and number one manufacturer of sonic toothbrushes under a co-brand, namely Philips Colgate. The move comes after both the companies discovered that the usage of electric toothbrush in Latin America is low.

This product line will come with a variety of electric toothbrushes at different prices. Further, the new brand will be available in limited countries in the said region.

Colgate-Palmolive Cheers Investors With Dividend Hike – Mar 11, 2021

Colgate's board has approved a quarterly cash dividend of 45 cents per share, reflecting a 2.3% hike from the prior rate of 44 cents. The increased dividend will be paid out on May 14 to shareholders of record as of Apr 21, 2020.

Valuation

Colgate shares are down 5.7% in the year-to-date period but up nearly 16.1% for the trailing 12-month period. Stocks in the Zacks sub-industry are down 14% but the Zacks Consumer Staples sector is up 4.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 2.5% and 26.6%, respectively.

The S&P 500 index is up 12.4% in the year-to-date period and 50.1% in the past year.

The stock is currently trading at 24.18X forward 12-month earnings, which compares to 22.13X for the Zacks sub-industry 20.66X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.05X and as low as 18.57X, with a 5-year median of 23.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$85 price target reflects 25.47X forward 12-month earnings.

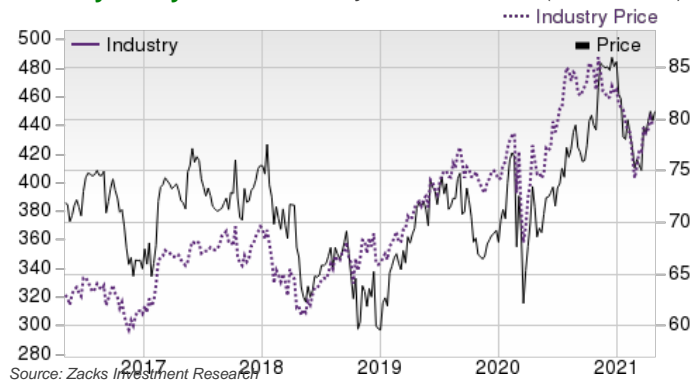
The table below shows summary valuation data for CL

Valuation Multiples - CL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.18	22.13	20.66	22.45
	5-Year High	27.05	25.08	22.4	23.83
	5-Year Low	18.57	17.53	16.52	15.3
	5-Year Median	23.76	21.97	19.52	18.01
P/S F12M	Current	3.89	3.52	10.41	4.75
	5-Year High	4.42	3.52	11.96	4.75
	5-Year Low	3.1	2.34	8.6	3.21
	5-Year Median	3.88	2.8	10.38	3.71
EV/EBITDA TTM	Current	19.18	14.09	42.73	18.81
	5-Year High	19.44	15.77	45.75	18.95
	5-Year Low	12.12	10.19	27.45	9.62
	5-Year Median	16.23	12.18	39.3	13.38

As of 04/30/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 13% (218 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Church & Dwight Co., Inc. (CHD)	Neutral	3
The Clorox Company (CLX)	Neutral	4
Henkel AG & Co. (HENKY)	Neutral	4
Johnson & Johnson (JNJ)	Neutral	3
Procter & Gamble Company The (PG)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	3
Unilever PLC (UL)	Neutral	3
KimberlyClark Corporation (KMB)	Underperform	5

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

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CL	X Industry	S&P 500	CLX	PG	UL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	C	-	-	B	D	B
Market Cap	67.65 B	54.71 B	30.59 B	23.39 B	324.42 B	154.92 B
# of Analysts	7	6.5	12	6	8	3
Dividend Yield	2.26%	1.39%	1.28%	2.39%	2.63%	3.45%
Value Score	C	-	-	B	C	B
Cash/Price	0.01	0.03	0.05	0.03	0.03	0.05
EV/EBITDA	17.03	17.03	17.18	17.17	17.42	12.03
PEG F1	4.58	3.54	2.29	3.16	3.39	4.99
P/B	62.14	6.27	4.21	16.95	7.05	3.41
P/CF	21.57	16.68	17.57	20.97	19.94	7.05
P/E F1	24.68	22.15	22.11	22.15	23.72	20.23
P/S TTM	4.11	4.11	3.45	3.11	4.33	NA
Earnings Yield	4.10%	4.43%	4.42%	4.43%	4.24%	4.92%
Debt/Equity	6.66	0.53	0.66	1.80	0.46	0.00
Cash Flow (\$/share)	3.70	3.67	6.78	8.87	6.65	8.36
Growth Score	B	-	-	B	C	B
Historical EPS Growth (3-5 Years)	1.26%	11.79%	9.70%	11.79%	9.70%	NA
Projected EPS Growth (F1/F0)	6.72%	7.48%	17.90%	11.93%	9.84%	2.59%
Current Cash Flow Growth	7.20%	9.55%	0.72%	11.90%	11.93%	0.57%
Historical Cash Flow Growth (3-5 Years)	1.09%	8.31%	7.37%	7.62%	2.25%	11.04%
Current Ratio	0.99	0.90	1.38	1.21	0.71	0.78
Debt/Capital	86.95%	34.24%	41.51%	64.28%	30.97%	0.00%
Net Margin	16.36%	16.36%	11.34%	16.28%	18.97%	NA
Return on Equity	324.36%	31.71%	15.46%	114.11%	31.71%	NA
Sales/Assets	1.07	1.07	0.50	1.17	0.63	NA
Projected Sales Growth (F1/F0)	5.56%	5.61%	8.16%	12.97%	6.24%	5.65%
Momentum Score	F	-	-	D	F	F
Daily Price Change	1.10%	-0.28%	-0.77%	-1.85%	0.69%	-0.34%
1-Week Price Change	-1.13%	-1.13%	0.47%	-1.15%	-2.41%	-1.20%
4-Week Price Change	1.62%	0.00%	4.28%	-3.57%	-1.32%	5.48%
12-Week Price Change	1.13%	4.65%	13.31%	-2.98%	2.70%	5.50%
52-Week Price Change	13.59%	13.59%	51.32%	-0.27%	12.42%	13.59%
20-Day Average Volume (Shares)	4,032,948	1,288,391	1,724,478	1,288,391	7,427,549	1,728,521
EPS F1 Estimate 1-Week Change	-0.22%	0.00%	0.00%	-0.10%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.08%	-0.52%	0.41%	-0.52%	-0.59%	-1.14%
EPS F1 Estimate 12-Week Change	-0.76%	-0.66%	2.24%	2.34%	-0.66%	-4.52%
EPS Q1 Estimate Monthly Change	-1.83%	-3.11%	0.33%	-4.39%	-10.73%	NA

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	F
VGM Score	C

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

Disclosures

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.