

Colgate-Palmolive Co. (CL)

\$83.11 (As of 11/03/20)

Price Target (6-12 Months): **\$87.00**

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:B

Value: D

Growth: A

Momentum: C

Summary

Shares of Colgate have outpaced the industry in the past three months. The stock got a boost from the better-than-expected third-quarter 2020 results, wherein both the top and the bottom line rose year over year. Notably, this was the company's third straight earnings surprise and fourth consecutive sales beat. Strong volume growth, robust price increases and sturdy organic sales across all regions boosted the quarterly results. Moreover, solid e-commerce growth and strong financial position bode well. Backed by the strong results and improved visibility through the rest of 2020, Colgate outlined its guidance for 2020. However, deleverage in advertising and SG&A expenses and adverse currency fluctuations remain concerns. Management expects adverse currency rates to hurt net sales at the lower end of the mid-single digits range in 2020.

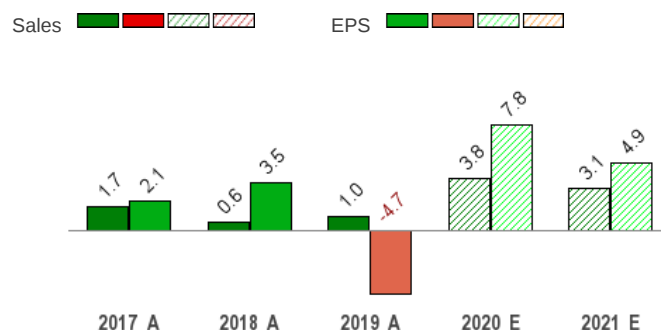
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$83.42 - \$58.49
20-Day Average Volume (Shares)	3,386,593
Market Cap	\$71.3 B
Year-To-Date Price Change	20.7%
Beta	0.57
Dividend / Dividend Yield	\$1.76 / 2.1%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 23% (57 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.9%
Last Sales Surprise	4.6%
EPS F1 Estimate 4-Week Change	3.0%
Expected Report Date	01/29/2021
Earnings ESP	-0.1%

P/E TTM	27.6
P/E F1	27.3
PEG F1	5.1
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,129 E	4,096 E	4,297 E	4,309 E	16,797 E
2020	4,097 A	3,897 A	4,153 A	4,139 E	16,286 E
2019	3,884 A	3,866 A	3,928 A	4,015 A	15,693 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.80 E	\$0.83 E	\$0.84 E	\$3.20 E
2020	\$0.75 A	\$0.74 A	\$0.79 A	\$0.76 E	\$3.05 E
2019	\$0.67 A	\$0.72 A	\$0.71 A	\$0.73 A	\$2.83 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 11/03/2020. The reports text is as of 11/04/2020.

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%.

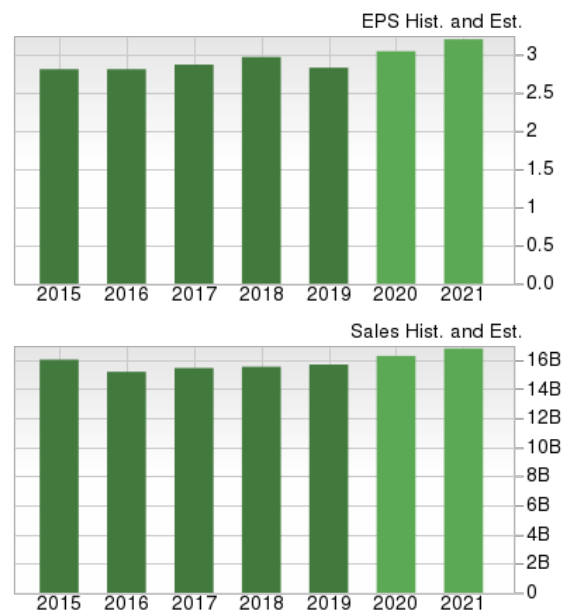
Colgate generated \$15.7 billion in revenues in 2019 and earnings of around \$2.4 billion. Sales contributions for 2019 included 46% from Oral Care, 20% from Personal Care, 18% from Home Care and 16% from Pet Nutrition businesses. It has a market share of 41.1% in the global toothpaste market and 31.6% in the manual toothbrush market.

New York City-based Colgate-Palmolive is a global leader in the oral care hygiene market. It produces and distributions 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 nearly 83.9% to total sales in 2019.

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 nearly 16.1% to total sales in 2019.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Robust Q3 Results:** Shares of Colgate have gained 9.1% in the past three months outperforming the industry's growth of 0.5%. The company posted third-quarter 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate and have improved year over year. Despite the impacts of the pandemic, the company witnessed accelerated growth in both top and bottom lines, driven by the continued demand for personal and home care products as well as the finest innovation across product categories. Moreover, it is witnessing positive trends in the e-commerce platform, led by growth in the Hill's business. Notably, the company reported double-digit growth in operating profit, net income and earnings per share. On an organic basis, the company's sales advanced 7.5%. Organic sales were aided by 3% organic volume improvement and 4.5% pricing gains. This marked the eighth consecutive quarter of sequential improvement in organic sales. On a geographic basis, it experienced organic sales growth across all of its regions.
- ▲ **Strong Gross & Operating Margin Growth:** Colgate has been witnessing gross margin expansion for the past four 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. This has resulted in organic sales growth and gross margin expansion. Moreover, its funding-the-growth endeavors are contributing to productivity growth. In third-quarter 2020, adjusted gross profit margin of 61.2% increased 220 basis points (bps) from the prior-year quarter. Gross margin growth mainly reflected 170 basis points of gains from pricing, 250 bps benefit from productivity and 30 bps other positives, partly offset by raw material cost headwind. Driven by the strong gross margin and sales, the company's adjusted operating income improved 11%, with 120 bps expansion in adjusted operating margin rate to 24.1%.
- ▲ **Upbeat Outlook:** Backed by favorable third-quarter results and improved visibility through the rest of 2020, Colgate outlined its guidance for 2020. It predicts both net sales and organic sales to increase in mid-single digits, with organic sales expected to increase at the high-end of the predicted range. 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 to increase in double-digits. Meanwhile, adjusted earnings per share are expected to grow 6-7%.
- ▲ **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. In North America, the company's focus on premium innovation like hum by Colgate, Colgate Optic White Renewal toothpaste, and the Colgate Optic White Overnight Teeth Whitening Pen helped to drive strong pricing growth in oral care category in the third quarter. Further, innovation in naturals and whitening across is driving growth in the Latin America division, while premium innovation is aiding the Colgate China business. Moreover, the buyout of Hello Products LLC (a leading oral care brand in the United States that produces eco-friendly and organic products), in a bid to expand its already strong oral care portfolio, is performing well. The brand fully complements the company's Tom's of Maine and Colgate brands. Also, its innovation efforts were highlighted by the continued expansion of the Naturals and Therapeutics divisions. This, along with accelerated investments in brands and higher pricing, is likely to aid the top line. Additionally, it continues to expand the Naturals toothpaste and prescription diet. In fact, the Naturals range is a key area of focus for the company in personal and home care categories.
- ▲ **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. It 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. This led the e-commerce business to grow nearly 50% in the first and second quarter of 2020 and continued strong growth in the third quarter, backed by solid online show in Hill's and U.S. businesses. 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. We note that the company has expanded the availability of its products through e-commerce offerings with the launch of Hill's to home, which enables pet parents to purchase prescription diet products directly from their veterinarian with home delivery option. All these actions are likely to fuel sales.
- ▲ **Financial Flexibility:** Colgate enjoys strong financial status. Colgate's cash and cash equivalents at the end of third-quarter 2020 of \$989 million remains sufficient to fund its short term obligations of about \$265 million. As of Sep 30, 2020, the company had a total debt of \$7,236 million, which declined 2.1% from the prior-quarter. The company's times interest earned ratio of 27.1 has improved from 26 in the prior-quarter. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.
- ▲ **Sustained Shareholder Returns:** Colgate follows a disciplined capital allocation strategy that focuses on making investments to develop business while using the excess cash to enhance shareholder returns through dividend payouts and share buybacks. The company has been regularly increasing its dividend every year since 2001. In first nine months of 2020, the company paid out dividends of \$1,162 million. Management recently declared quarterly cash dividend of 44 cents per share, payable on Nov 16. Notably, Colgate has a dividend payout ratio of 58.1%, annualized dividend yield of 2.1% and free cash flow yield of 4.7%. With an annual free cash flow return on investment of 42.98%, ahead of the industry's nearly 23.01%; the dividend payment is likely to be sustainable.

Colgate has been witnessing gross margin expansion on robust pricing and productivity gains driven by its premiumization and revenue growth management. Gross margin expanded 220 bps in Q3.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering the price-to-earnings (P/E) ratio, Colgate looks pretty overvalued compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 27.61x, which is above the median level of 25.01x and at par with the high level scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 21.41x for the industry and 24.28x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Higher SG&A Expenses:** Colgate is grappling with higher selling, general & administrative (SG&A) expenses for a while now. During the quarter under review, adjusted SG&A expenses increased 8.1% to \$1,521 million, whereas as a percentage of sales it deleveraged 90 basis points to 36.6%. This increase in SG&A expenses may be attributed to increased advertising investment and higher logistics cost. Advertising expenses rose 70 bps, as a percentage of sales, whereas it increased 13% year over year on an absolute basis. Moreover, the company witnessed moderately higher logistics expenses due to increased demand amid the pandemic.
- ▼ **Currency Headwinds Remain a Hurdle:** Despite pricing gains, Colgate's sales for third-quarter 2020 continued to be hurt by adverse currency rates. Currency translations had a 4% negative impact on net sales. Moreover, unfavorable currency negatively impacted sales across some geographic regions in the quarter. Currency had negative impacts of 16.5% in Latin America and 10.5% in Africa/Eurasia. Looking ahead, management expects negative currency impact at the lower of its previously predicted range of mid-single-digit on net sales for 2020, based on current spot rates.
- ▼ **Slowdown of Global Economies:** Colgate 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. In fact, it has been witnessing slower category growth rates worldwide, which remains a threat to the company's profitability.
- ▼ **Competitive Pressure:** Colgate faces intense competition from other well-established players in the consumer products industry, such as Church & Dwight, 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, and in turn, dent its top- and bottom-line performances.

Higher advertising investments and logistics costs related to the increased demand amid the pandemic resulted in SG&A expenses deleverage in the third quarter.

Last Earnings Report

Colgate Q3 Earnings & Sales Beat, Gives Solid View

Colgate has reported third-quarter 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate and improved year over year. Despite the impacts of the pandemic, the company witnessed accelerated growth in both top and bottom lines, driven by the continued demand for personal and home care products as well as the finest innovation across product categories. Moreover, it is witnessing positive trends in the e-commerce platform, led by growth in the Hill's business. Notably, the company reported double-digit growth in operating profit, net income and earnings per share.

Quarter Ending	09/2020
Report Date	Oct 30, 2020
Sales Surprise	4.60%
EPS Surprise	12.86%
Quarterly EPS	0.79
Annual EPS (TTM)	3.01

Adjusted earnings of 79 cents per share rose 11% from the prior-year quarter and surpassed the Zacks Consensus Estimate of 70 cents. On a GAAP basis, earnings were 81 cents per share, reflecting growth of 21% from 67 cents earned in the year-ago period.

Net sales of \$4,153 million improved 5.5% from the year-ago period and beat the Zacks Consensus Estimate of \$3,970 million. On an organic basis, the company's sales advanced 7.5%. Organic sales were aided by improved volume and higher pricing. Unit volume increased 5% on a reported basis and 3% on an organic basis. Further, pricing was up 4.5%. Organic sales growth was mainly led by strength in the Africa/Eurasia, Latin America and Hill's segments. However, results were partly hurt by a 4% negative impact of foreign currency.

Adjusted gross profit margin of 61.2% increased 220 basis points (bps) from the prior-year quarter. In dollar terms, adjusted gross profit rose 9.6% to \$2,540 million.

Adjusted selling, general & administrative (SG&A) expenses increased 8.1% year over year to \$1,521 million. As a percentage of sales, SG&A expenses escalated 90 bps to 36.6%. Adjusted operating income of \$1,002 million in the third quarter advanced 11% year over year. Meanwhile, adjusted operating margin expanded 120 bps to 24.1%, driven by strong gross margin gains, slightly offset by higher SG&A expense rate.

Colgate's market share of manual toothbrushes reached 31.1% year to date. Further, the company continued with its leadership position in the global toothpaste market, with the market share at 39.9%.

Segmental Discussion

North America's net sales (22% of total sales) improved 6.5%, reflecting a 3% rise in unit volume and 3.5% pricing gains. On an organic basis, sales grew 5%, with organic volume up 1.5%, mainly driven by growth in the United States. Year to date, the company's share in the toothpaste market is at 35% and in the manual toothbrush market, it is at 40.9% in the United States.

Latin America's net sales (20% of total sales) dropped 5% year over year as 9.5% gains in pricing and 2% volume growth was more than offset by a 16.5% negative currency impact. On an organic basis, sales were up 11.5%, led by growth in Brazil, Argentina, Mexico and Colombia. Organic volume also grew 2% in the quarter.

Europe's net sales (17% of total sales) increased 17% year over year on a 12% rise in unit volume and a 0.5% increase in pricing and a 4.5% gain from favorable currency exchange rates. Organic sales in Europe were up 3%, driven by a 2.5% increase in organic volume as well as growth in France, the Netherlands and Denmark. This was slightly offset by an organic sales decline in the U.K.

The **Asia Pacific** segment's net sales (18% of total sales) improved 4.5% on both reported and organic basis. This growth is attributable to a 2.5% rise in unit volume (both reported and organic) and 2.5% pricing gains. Sales growth in the Asia Pacific was mainly led by Australia, India, the Philippines and the Greater China region.

Africa/Eurasia's net sales (6% of total sales) increased 2.5% year over year, owing to a 6.5% increase each in unit volume and pricing, offset by a 10.5% adverse impact from foreign exchange. Organic sales for Africa/Eurasia improved 12%, driven by gains in Russia, South Africa and Turkey. Organic volume in the region was up 5.5%.

Hill's Pet Nutrition's net sales (17% of total sales) grew 11% from the year-ago quarter, both on a reported and organic basis. Results gained from a 6.5% increase in unit volume (both reported and organic) and 4.5% pricing growth. Sales were aided by gains in the United States, Europe, Australia and Canada.

Other Financial Details

Colgate ended third-quarter 2020 with cash and cash equivalents of \$989 million, and total debt of \$7,236 million. Net cash provided by operating activities amounted to \$2,756 million as of Sep 30, 2020.

Outlook

Backed by favorable third-quarter results and expectations of positive trends for the rest of 2020, Colgate outlined its guidance for 2020. It predicts both net sales and organic sales to increase in mid-single digits, with organic sales expected to increase at the high-end of the predicted range. 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 to increase in double-digits. Meanwhile, adjusted earnings per share are expected to grow 6-7%.

Recent News

Colgate's Declares Quarterly Dividend – Sep 10, 2020

Colgate's board approved a quarterly dividend of 44 cents per share which is payable on Nov 16, 2020 as of shareholders record as on Oct 23.

Valuation

Colgate shares are up 20.7% in the year-to-date period and nearly 26% for the trailing 12-month period. Stocks in the Zacks sub-industry are up 12.1% but the Zacks Consumer Staples sector is down 7.9% in the year-to-date period. Over the past year, the Zacks sub-industry is up 14.7% but the sector is down 3.8%.

The S&P 500 index is up 5% in the year-to-date period and 10.1% in the past year.

The stock is currently trading at 26.73X forward 12-month earnings, which compares to 23.54X for the Zacks sub-industry, 18.87X for the Zacks sector and 21.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.73X and as low as 18.57X, with a 5-year median of 23.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 27.98X 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	26.73	23.54	18.87	21.41
	5-Year High	26.73	24.18	22.37	23.47
	5-Year Low	18.57	17.89	16.61	15.27
	5-Year Median	23.71	21.48	19.56	17.7
P/S F12M	Current	4.34	2.88	9.26	3.96
	5-Year High	4.34	2.9	11.16	4.3
	5-Year Low	3.1	2.02	8.14	3.17
	5-Year Median	3.86	2.36	9.89	3.67
EV/EBITDA TTM	Current	18.79	13.42	37.76	14.12
	5-Year High	18.79	14.72	45.29	15.63
	5-Year Low	12.12	9.26	27.45	9.52
	5-Year Median	15.96	11.18	38.67	13.11

As of 11/03/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 249)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
ChurchDwight Co., Inc. (CHD)	Neutral	3
The Clorox Company (CLX)	Neutral	3
Henkel AGCo. (HENKY)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
KimberlyClark Corporation (KMB)	Neutral	3
ProcterGamble Company The (PG)	Neutral	2
Reckitt Benckiser Group PLC (RBGLY)	Neutral	2
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		
	CL	X Industry	S&P 500	CLX	PG	UL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	B	-	-	B	D	A
Market Cap	71.26 B	64.27 B	23.25 B	26.75 B	350.17 B	68.90 B
# of Analysts	8	7.5	13	7	9	3
Dividend Yield	2.12%	1.99%	1.6%	2.09%	2.24%	3.10%
Value Score	D	-	-	D	D	B
Cash/Price	0.01	0.04	0.07	0.03	0.04	0.10
EV/EBITDA	19.48	19.58	13.59	19.58	18.72	NA
PEG F1	5.06	4.46	2.66	4.74	3.37	4.41
P/B	66.41	5.16	3.41	20.41	7.34	3.43
P/CF	24.07	21.25	13.02	23.94	21.25	7.10
P/E F1	27.25	23.37	20.92	26.85	25.47	20.61
P/S TTM	4.41	4.08	2.57	3.75	4.83	NA
Earnings Yield	3.67%	4.32%	4.62%	3.72%	3.93%	4.85%
Debt/Equity	6.50	0.84	0.70	2.12	0.50	NA
Cash Flow (\$/share)	3.45	3.45	6.92	8.87	6.65	8.31
Growth Score	A	-	-	A	B	A
Historical EPS Growth (3-5 Years)	1.08%	8.08%	10.07%	8.08%	7.66%	NA
Projected EPS Growth (F1/F0)	7.60%	6.65%	-0.08%	7.40%	8.31%	0.00%
Current Cash Flow Growth	-4.58%	11.90%	5.34%	11.90%	11.93%	1.99%
Historical Cash Flow Growth (3-5 Years)	-1.27%	5.95%	8.38%	7.62%	2.25%	5.95%
Current Ratio	0.97	0.97	1.39	1.41	0.87	0.86
Debt/Capital	86.66%	44.43%	41.80%	67.96%	33.02%	NA
Net Margin	16.65%	16.44%	10.44%	16.14%	18.92%	NA
Return on Equity	383.88%	30.69%	14.94%	132.72%	30.69%	NA
Sales/Assets	1.06	1.06	0.50	1.17	0.62	NA
Projected Sales Growth (F1/F0)	3.56%	3.56%	-0.11%	3.79%	4.21%	1.55%
Momentum Score	C	-	-	B	D	C
Daily Price Change	3.68%	1.98%	2.01%	-1.75%	1.96%	1.99%
1-Week Price Change	-0.57%	-3.83%	-5.63%	-1.84%	-3.71%	-7.32%
4-Week Price Change	7.18%	-0.47%	1.30%	0.52%	1.15%	-4.49%
12-Week Price Change	9.41%	0.15%	1.19%	-4.52%	6.00%	0.31%
52-Week Price Change	26.00%	18.32%	1.05%	43.58%	18.77%	-0.81%
20-Day Average Volume (Shares)	3,386,593	1,285,321	1,887,552	1,353,964	5,765,716	1,216,679
EPS F1 Estimate 1-Week Change	2.74%	0.00%	0.00%	2.56%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.96%	2.30%	0.96%	2.25%	2.63%	1.96%
EPS F1 Estimate 12-Week Change	2.96%	3.01%	2.84%	1.86%	2.74%	3.06%
EPS Q1 Estimate Monthly Change	0.54%	-2.00%	0.39%	-4.51%	0.50%	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	D
Growth Score	A
Momentum Score	C
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.

Disclosures

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

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Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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