May 26, 2021

Coty, Inc. (COTY)

$8.56 (As of 05/25/21)

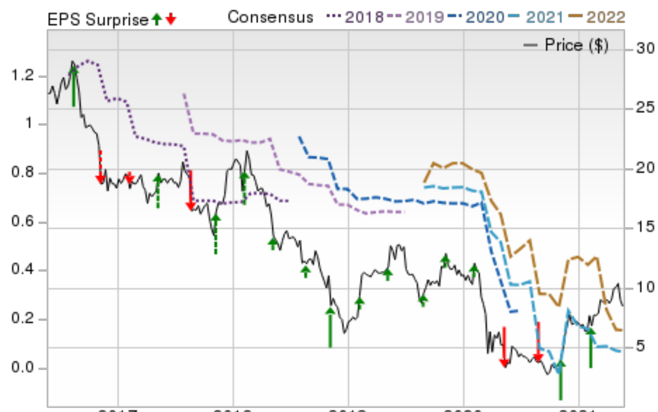
Price Target (6-12 Months): **$10.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: D | Momentum: F	

Summary

Coty has outpaced the industry in the past three months. The company is focused on its core strategies, which include achieving solid e-commerce momentum; strengthening presence in China and solidifying foothold in prestige category among others. Also, Coty's fixed cost-reduction program helped it redirect capital as well as improve brands and deliver profit. Apart from this, the company made several strategic partnerships to enhance its brand portfolio. However, Coty's revenues have been bearing the brunt of pandemic-led hurdles like disrupted travel retail network and lockdowns. Net revenues fell 3.3% year over year, while its LFL net revenues slid 5.5% in third-quarter fiscal 2021. Also, sales in the mass category continued to bear the brunt of reduced demand for color cosmetics due to lesser usage occasions amid the pandemic.

Price, Consensus & Surprise

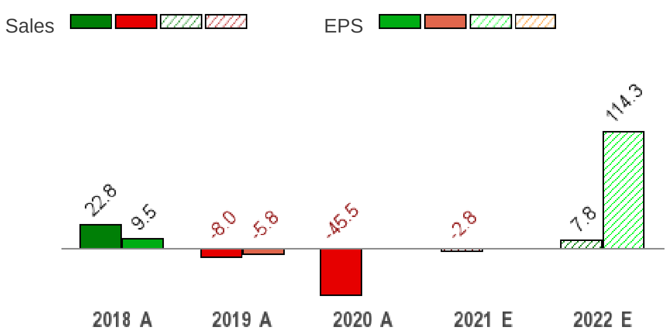


Source: Zacks Investment Research

Data Overview

52-Week High-Low	$10.49 - $2.65
20-Day Average Volume (Shares)	6,860,147
Market Cap	$6.6 B
Year-To-Date Price Change	21.9%
Beta	2.48
Dividend / Dividend Yield	$0.00 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Bottom 27% (181 out of 249)
Last EPS Surprise	112.5%
Last Sales Surprise	0.2%
EPS F1 Estimate 4-Week Change	3.1%
Expected Report Date	08/26/2021
Earnings ESP	-150.0%
P/E TTM	NA
P/E F1	122.3
PEG F1	NA
P/S TTM	1.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,258 E	1,577 E	1,103 E	1,076 E	4,944 E
2021	1,124 A	1,416 A	1,028 A	1,024 E	4,588 E
2020	1,943 A	2,345 A	1,528 A	560 A	4,718 A

EPS Estimates

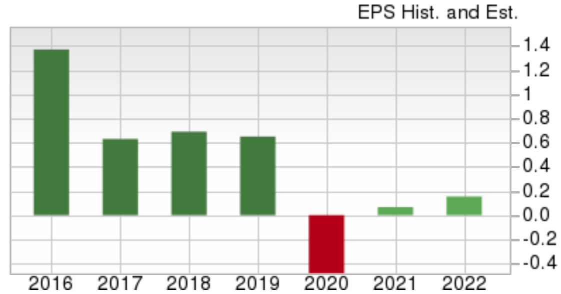
	Q1	Q2	Q3	Q4	Annual*
2022	$0.02 E	$0.12 E	$0.01 E	$0.05 E	$0.15 E
2021	$0.11 A	$0.17 A	$0.00 A	-$0.02 E	$0.07 E
2020	$0.07 A	$0.27 A	-$0.08 A	-$0.46 A	-$0.48 A

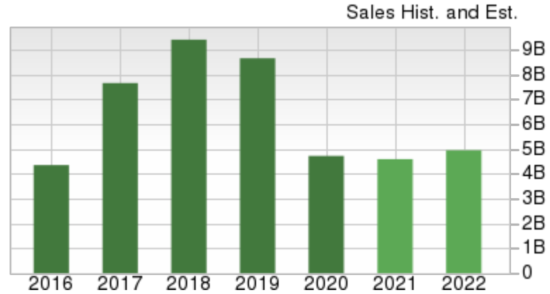
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 05/25/2021. The report's text and the analyst-provided price target are as of 05/26/2021.

Overview

New York-based Coty Inc., along with its subsidiaries, manufactures, markets, and distributes beauty products worldwide. The company sells its products through retailers, including hypermarkets, supermarkets, independent and chain drug stores and pharmacies, upscale perfumeries, upscale and mid-tier department stores, nail salons, specialty retailers, duty-free shops and traditional food, and drug and mass retailers. It also markets products under the Astor, Coty, Joop!, Jovan, Manhattan, and N.Y.C. New York Color brands.





On Jun 1, 2020 Coty entered into a definitive deal with KKR for the Professional and Retail Hair business of the former, which includes Wella, OPI, Clairol and ghd brands (collectively known as Wella). Per the deal, KKR will have a 60% stake in the separately managed business, whereas Coty will hold the remaining 40%. The sale of 60% of Wella to KKR is expected to close by the end of the calendar year 2020.

As of the first quarter of fiscal 2021, Coty has three remaining segments for its continuing operations, which include Americas (39.9% of third-quarter fiscal 2021 revenues), EMEA (46%) as well as Asia Pacific (17.1%). Each of these segments exclude the discontinued retail hair operations.

Notably, the three segments are supported by central marketing teams and include businesses focused on prestige fragrances, prestige skin care, prestige cosmetics, mass fragrance, mass skin care, mass color cosmetics and body care.

Apart from this, Coty operates through the Prestige as well as Mass channels. These accounted for roughly 58.4% and 41.6% of the company's net revenues from continuing operations, respectively as of the third quarter of fiscal 2021.

Source: Zacks Investment Research

Reasons To Buy:

▲ **Focus on Core Priorities**: Shares of Coty have increased 6.2% in the past three months, compared with the industry's growth of 4.1%. On April 23, the company revealed its long-term strategy that was highlighted by six priorities aimed at sustainable growth. These include stabilizing Consumer Beauty make-up brands and mass fragrances; accelerating luxury fragrances and setting up Coty as a core player in prestige make-up; establishing a skincare portfolio in prestige and mass channels; strengthening e-commerce and Direct-to-Consumer (DTC) capabilities; growing presence in China via Prestige and certain Consumer Beauty brands; as well as setting Coty as an industry leader in sustainability. With respect to its prestige fragrance category, Coty is particularly benefiting from strength and innovations in Gucci, Burberry and Marc Jacobs brands. In its last earnings call, management also highlighted that its prestige makeup category is gaining from impressive performance from Gucci and Burberry brands worldwide. Certainly, the impact of these strategies was reflected in Coty's third-quarter fiscal 2021 results, with sales in the prestige channel reverted to growth as the effects of coronavirus decreased in a number of markets. The company saw strength in several core markets like China and the United States.

Coty is committed to its core priorities like strengthening e-commerce, establishing a skincare portfolio and growing presence in China.

▲ **Cost-Saving Efforts**: Management is committed to optimizing the overall cost structure. In this regard, the company's fixed cost reduction program has helped it to redirect capital to improve brands and delivery profit. In the third quarter of fiscal 2021, Coty's fixed costs declined 15% year on year. Incidentally, the company delivered cost savings amounting to nearly $110 million in the quarter. Year to date, its cost savings amounted to more than $270 million. Well, the company is on track to achieve its savings target of about $300 million for fiscal 2021.

Quarterly adjusted operating income came in at $95.6 million compared with adjusted loss of $68.2 million in the year-ago period. Further, adjusted EBITDA for the third quarter came in at $183.2 million against a loss of $1.4 million in the year-ago period. The upside was a result of improved gross margin, constant fixed-cost curtailments (including people and non-people expenses) and solid marketing expense management.

▲ **Strategic Partnerships & Divestitures Aid**: Coty has made several strategic partnerships to enhance its brand portfolio. On Mar 3, 2021, the company signed a letter of intent to partner with LanzaTech — a pioneer in producing next-generation green and sustainable ingredients. This partnership is aimed at introducing sustainable ethanol produced from captured-carbon emissions into Coty's fragrance offerings. Further, the company acquired 20% stake in Kim Kardashian West's businessin January 2021. The deal will help Coty and Kim Kardashian West focus on fresh beauty categories, alongside expanding their worldwide presence beyond the current line of products. Further, Coty and Kylie Jenner unveiled their long-term alliance in January 2020, aimed at further building upon Kylie's beauty business, which includes Kylie Skin and Kylie Cosmetics. In its last earnings call, management highlighted that Kylie Skin witnessed solid launches in both Russia and France in the brick-and-mortar side. Moreover, the company is optimistic about its new collaboration with Kylie Cosmetics, which is scheduled for this summer. Management expects to provide a solid cosmetic collection though an impressive omni-channel approach and website with this collaboration. Well, Kylie Jenner is an iconic personality with more than 300 million followers on social media.

Apart from this, the company's buyout of the iconic Burberry brand, in the second quarter of fiscal 2018, has been yielding favorably. This acquisition has been supporting growth in the Prestige segment. Additionally, the company's buyout of Procter & Gamble Company's global fine fragrances, salon professional, cosmetics and retail hair color businesses, along with select hair styling brands (the P&G Beauty Business) in 2016 bodes well. On the flip side, Coty completed the sale of a majority stake in its Professional and Retail Hair business (Wella) to KKR on Nov 30, 2020. This is likely to boost Coty's balance sheet. Earlier, in September 2019, Coty divested its controlling stake in Younique, LLC.

▲ **E-Commerce Strength**: While Coty has been seeing soft sales since the past few quarters due to coronavirus-led concerns, the company's e-commerce business has been performing impressively. In the third quarter of fiscal 2021, the company's e-commerce sales surged nearly 38%, with strength in all regions and channels. Also, Coty's luxury e-commerce sales increased more than 20%, while its year-to-date penetration is pegged at mid 20% level.

During the quarter, e-commerce sales in the Americas surged more than 50%, thanks to strength in prestige as well as mass categories. This, in turn, was powered by solid execution at e-retailers as well as brick & click. As a percentage of sales, e-commerce penetration was in low-double digits for the year-to-date period in the region. Moving on, e-commerce sales in EMEA soared about 90% in the quarter and e-commerce penetration, as a percentage of sales, went up to the high-teens percentage range. During the third quarter, e-commerce sales jumped in triple digits Asia-Pacific region, with penetration in the mid-teens range. Channel-wise, e-commerce sales rose more than 20% in Prestige. Further, e-commerce sales in Mass channel remained strong, surging more than 50%. E-commerce sales were backed by continued growth at retailer sites as well as robust performance on Amazon.

Reasons To Sell:

> Coty's revenues have been bearing the brunt of pandemic-led hurdles like disrupted travel retail network and lockdowns.

- **COVID-19 Hurt Q3 Revenues**: Coty's revenues have been bearing the brunt of pandemic-led hurdles like soft traffic as well as a disrupted travel retail network amid the pandemic-lead social distancing trends. In third-quarter fiscal 2021, net revenues came in at $1,027.8 million, which fell 3.3% year over year. LFL net revenues slid 5.5% due to declines in the EMEA and Americas segments, somewhat compensated by growth in the Asia Pacific during the quarter. Notably, net revenues in the Americas fell 6% while LFL revenues were down 3.4% as weakness in the color cosmetics market continued to hurt the mass beauty category. Further, sales in EMEA dropped 7.8% (down 12.9% at LFL). LFL sales in the region were hurt by travel retail hurdles. Apart from these, sales trends in both mass and prestige were hurt by pandemic-led curbs and lockdowns in huge parts of Western Europe.

- **Mass Unit Under Pressure**: The Mass channel has long been witnessing soft sales. In the third quarter of fiscal 2021, net revenues declined 14.3% year over year to $427.4 million, while LFL sales fell 14.5%. Sales continued to bear the brunt of reduced demand for color cosmetics due to lesser usage occasions amid pandemic-induced social distancing and lockdowns. Certainly, persistence of such trends is a threat to the company's performance.

- **Financial Analysis**: Coty's long-term debt of $5,182.4 million at the end of the third quarter of fiscal 2021(as of Mar 31, 2021) increased 0.8% from $5,140 million reported in the previous quarter. Incidentally, the company's debt-to-capitalization ratio of 0.62 as of the end of the third quarter was higher than the industry's ratio of 0.52. Apart from this, the company used cash in operations of $186.3 million in the quarter.

- **Stiff Competition**: Coty faces competition from various products and product lines, in both domestic and international markets. The beauty and beauty-related products industry is highly competitive with the number of competitors and degree of competition varying widely from country to country. Worldwide, Coty competes against products sold to consumers by other direct-selling and direct-sales companies and through the Internet, and against products sold through the mass market and prestige retail channels.

Last Earnings Report

Coty Q3 Earnings Match Estimates, Revenues Decline Y/Y

Quarter Ending	03/2021
Report Date	May 10, 2021
Sales Surprise	0.18%
EPS Surprise	112.50%
Quarterly EPS	0.00
Annual EPS (TTM)	-0.18

Coty released third-quarter fiscal 2021 results, wherein the bottom line increased year over year and came in line with the Zacks Consensus Estimate. While the top line declined year over year, trends improved sequentially despite the pandemic-induced lockdowns in key markets, especially Western Europe.

The company noted that sales in the prestige channel reverted to growth, as the effects of coronavirus decreased in a number of markets. The company saw strength in several core markets like China and the United States. Though sales in Europe have been under pressure, lifting of curbs is likely to aid improvement in the region, which is one of the key regions. The company also continued to gain from strong e-commerce operations.

Quarter in Detail

Coty posted breakeven results for earnings in the third quarter of fiscal 2021, which was in line with the Zacks Consensus Estimate. Markedly, the bottom line fared better than the year-ago period's adjusted loss of 14 cents per share.

Coty's net revenues came in at $1,027.8 million, which fell 3.3% year over year. The Zacks Consensus Estimate stood at $1,026 million. Currency translations had a 2.2% positive impact on the top line. LFL net revenues slid 5.5% due to declines in the EMEA and Americas segments, somewhat compensated by growth in the Asia Pacific. Notably, the LFL mass business revenues saw a 14.5% decline and the prestige business was up 2.4%.

Adjusted gross margin increased from 57.7% to 62.2%, on the back of revenue mix management, supply-chain productivity and betterment in excess & obsolescence, somewhat negated by lower sales volumes.

Adjusted operating income came in at $95.6 million compared with adjusted loss of $68.2 million in the year-ago period. Further, adjusted EBITDA for the quarter came in at $183.2 million compared with a loss of $1.4 million in the year-ago period. The upside was a result of improved gross margin, constant fixed-cost curtailments (including people and non-people expenses) and solid marketing expense management.

Channel-Wise Details

Prestige: Net revenues in the segment advanced 6.5% to $600.6 million, while LFL revenues rose 2.4%. The upside was mainly backed by growth in the United States and China. Brand-wise, the company benefited from double-digit increases in Gucci, Burberry, Marc Jacobs and philosophy. Impressively, e-commerce sales rose more than 20% year over year.

Mass: Net revenues fell 14.3% year over year to $427.4 million, while LFL sales fell 14.5%. Sales continued to bear the brunt of reduced demand for color cosmetics due to lesser usage occasions amid the pandemic-induced social distancing and lockdowns.

Nonetheless, the company noted that sell-out trends have begun improving lately. E-commerce sales remained strong, growing more than 50%. E-commerce sales were backed by continued growth at retailer sites as well as robust performance on Amazon.

Segment Results

Net revenues in the **Americas** fell 6% to $409.6 million. LFL revenues were down 3.4% as weakness in the color cosmetics market continued to hurt the mass beauty category. Notably, U.S. prestige sales, excluding travel retail, saw robust growth, thanks to strength in fragrances, skincare and cosmetics. During the quarter, e-commerce sales surged more than 50% in the region, thanks to strength in prestige as well as mass categories. This, in turn, was powered by solid execution at e-retailers as well as brick & click. As a percentage of sales, e-commerce penetration was in low-double digits for the year-to-date period.

Sales in **EMEA** dropped 7.8% (down 12.9% at LFL) year over year to $473 million. LFL sales were hurt by travel retail hurdles. Apart from these, sales trends in both mass and prestige were hurt by pandemic-led curbs and lockdowns in huge parts of Western Europe. E-commerce sales soared about 90% in the quarter and e-commerce penetration, as a percentage of sales, went up to the high-teens percentage range.

Sales in the **Asia-Pacific** region rose 27.7% (19.5% at LFL) year on year to $145.2 million, with most of LFL revenues declining due to strength in prestige brands, even amid travel retail hurdles stemming from reduced air travel. The company saw strength, particularly in China. E-commerce sales jumped in triple digits, with penetration in the mid-teens range.

Other Financial Updates

Coty ended the quarter with cash and cash equivalents of $315.3 million and immediate liquidity of $2,376.8 million. The company's financial net debt of $5,106.6 million as of Mar 31, 2021, escalated from $4,842.6 million as of the end of the preceding quarter (Dec 31, 2020). During the quarter, Coty used cash in operations of $186.3 million. Operating cash flow for the year-to-date period came in at $286.4 million. Free cash outflow during the third quarter was $218.4 million.

Recent News

Coty to Team Up With LanzaTech for its Fragrance Business – Mar 3, 2021

Coty signed a letter of intent to partner with LanzaTech — a pioneer in producing next-generation green and sustainable ingredients. This partnership is aimed at introducing sustainable ethanol produced from captured-carbon emissions into Coty's fragrance offerings. Notably, Coty's scientists have worked with LanzaTech and production partners during the last two years to come up with a high-purity sustainable ethanol for its scents. The envisioned partnership will enable Coty to use this carbon-captured ethanol. Management intends to have most of its fragrance portfolio to be made using this ethanol by 2023.

We note that ethanol is major ingredient in fragrance products. Currently, the company's scents use ethanol, which is derived from several natural raw materials like sugar cane and sugar beet. These ingredients use land, water and fertilizers. Coty highlighted that the newly-developed ethanol with LanzaTech uses near-zero water as well as reduced area of agricultural land. Clearly, the introduction of this carbon-captured ethanol is in sync with Coty's 'Beauty That Lasts' sustainability program.

Valuation

Coty shares are up 22% in the year-to-date period and 89.8% for the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.3% and the Zacks Consumer Staples sector gained 7% in the year-to-date period. Over the past year, the Zacks sub-industry went up 47.9% and the sector gained 24.4%.

The S&P 500 index is up 12.4% in the year-to-date period and 40.4% in the past year.

The stock is currently trading at 58.81X forward 12-month earnings, which compares to 45.89X for the Zacks sub-industry, 20.89X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 72.93X and as low as 5.34X, with a 5-year median of 18.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $10 price target reflects 68.7X forward 12-month earnings.

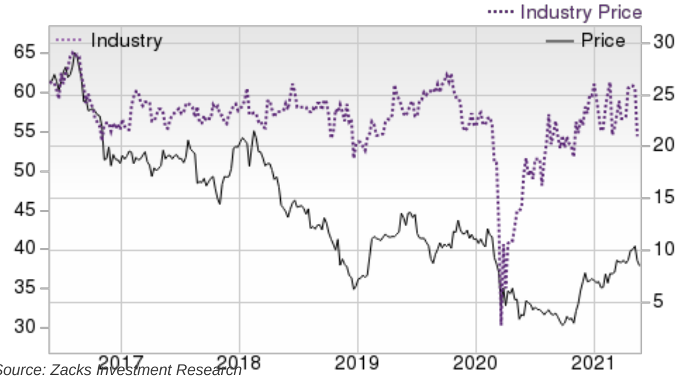
The table below shows summary valuation data for COTY

Valuation Multiples - COTY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	58.81	45.89	20.89	21.9
	5-Year High	72.93	48.16	22.4	23.83
	5-Year Low	5.34	19.65	16.53	15.3
	5-Year Median	18.92	26.81	19.54	18.02
P/S F12M	Current	1.34	7.65	10.49	4.7
	5-Year High	2.16	7.94	11.96	4.74
	5-Year Low	0.35	1.53	8.6	3.21
	5-Year Median	1.09	3.16	10.36	3.71
EV/EBITDA F12M	Current	12.99	39.68	37.19	15.72
	5-Year High	18.02	42.58	38.69	16.53
	5-Year Low	6.2	8.68	26.7	10.79
	5-Year Median	11.17	20.05	35.1	13.55

As of 05/25/2021 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 27% (181 out of 249)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Inter Parfums, Inc. **(IPAR)**	Outperform	1
MANDOM CORP **(MDOMF)**	Neutral	4
Natura &Co Holding S.A. ADR **(NTCO)**	Neutral	3
Nu Skin Enterprises, Inc. **(NUS)**	Neutral	2
Symrise AG Unsponsored ADR **(SYIEY)**	Neutral	3
Helen of Troy Limited **(HELE)**	Underperform	5
POLA ORBIS **(PORBF)**	Underperform	4
Revlon, Inc. **(REV)**	Underperform	4

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

Industry Comparison Industry: Cosmetics

	COTY	X Industry	S&P 500	NTCO	NUS	SYIEY
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	D	A	D
Market Cap	6.56 B	1.48 B	30.19 B	13.14 B	2.98 B	18.08 B
# of Analysts	5	3	12	1	4	2
Dividend Yield	0.00%	0.00%	1.3%	0.00%	2.55%	0.57%
Value Score	C	-	-	D	A	D
Cash/Price	0.06	0.06	0.06	0.10	0.12	NA
EV/EBITDA	-22.19	13.39	17.47	8.82	8.86	NA
PEG F1	NA	4.64	2.18	NA	NA	NA
P/B	2.07	3.84	4.15	2.50	3.43	6.77
P/CF	18.31	29.08	17.45	29.95	11.47	29.08
P/E F1	124.71	44.21	21.65	477.50	13.98	40.71
P/S TTM	1.59	1.82	3.48	1.83	1.09	NA
Earnings Yield	0.82%	2.19%	4.51%	0.21%	7.15%	2.46%
Debt/Equity	1.63	0.34	0.66	0.47	0.34	NA
Cash Flow ($/share)	0.46	1.15	6.82	0.62	5.21	1.13
Growth Score	D	-	-	C	B	C
Historical EPS Growth (3-5 Years)	-12.65%	0.12%	9.39%	NA	3.02%	NA
Projected EPS Growth (F1/F0)	113.75%	25.07%	20.29%	125.00%	17.36%	5.13%
Current Cash Flow Growth	-71.21%	-5.39%	0.74%	33.01%	6.05%	5.51%
Historical Cash Flow Growth (3-5 Years)	-9.44%	6.03%	7.37%	NA	2.26%	NA
Current Ratio	0.71	1.52	1.39	1.18	1.60	NA
Debt/Capital	62.44%	30.19%	41.55%	32.10%	25.49%	NA
Net Margin	-20.42%	1.97%	11.70%	0.44%	7.99%	NA
Return on Equity	-4.00%	6.34%	16.07%	1.09%	25.88%	NA
Sales/Assets	0.27	0.74	0.51	0.62	1.46	NA
Projected Sales Growth (F1/F0)	-28.04%	9.27%	9.20%	-80.58%	10.21%	4.44%
Momentum Score	F	-	-	D	B	D
Daily Price Change	-0.47%	0.00%	0.09%	-2.04%	-0.30%	0.49%
1-Week Price Change	-5.81%	0.00%	-0.49%	0.16%	1.70%	4.18%
4-Week Price Change	-14.93%	-3.50%	0.85%	7.04%	10.66%	-1.83%
12-Week Price Change	9.91%	3.30%	12.34%	13.48%	16.78%	12.66%
52-Week Price Change	124.80%	49.89%	46.29%	53.45%	68.46%	25.04%
20-Day Average Volume (Shares)	6,860,147	45,766	1,936,476	395,197	394,838	42,128
EPS F1 Estimate 1-Week Change	22.22%	0.00%	0.00%	0.00%	-0.08%	0.00%
EPS F1 Estimate 4-Week Change	3.13%	0.00%	1.65%	0.00%	7.71%	1.86%
EPS F1 Estimate 12-Week Change	-26.67%	-1.80%	2.64%	-63.64%	6.55%	-1.80%
EPS Q1 Estimate Monthly Change	-271.43%	0.00%	0.83%	NA	3.34%	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	D
Momentum Score	F
VGM Score	D

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 mediumterm 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 mostrecent 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.