

## Campbell Soup Company (CPB)

**\$46.11** (As of 06/11/21)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 06/11/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

### Summary

Campbell Soup, which has lagged the industry in the past three months, posted drab third-quarter fiscal 2021 results, wherein the top and bottom lines fell year over year and missed the Zacks Consensus Estimate. Also, management slashed its fiscal 2021 view. Sales were largely hurt by tough comparisons with the year-ago period, which benefited from the initial pandemic-led demand spike. Further, elevated inflation, rise in supply-chain expenses and some executional headwinds related to the transformation plan plagued the margins. Management expects continued margin pressure in the fourth quarter due to transitioning out from the pandemic-led landscape and stronger inflation. Nonetheless, the company is on track with pricing actions, which is expected to show results in fiscal 2022. Apart from this, brand strength and focus on saving efforts bode well.

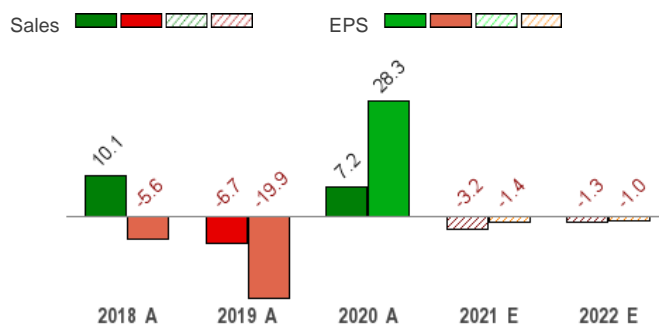
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$54.08 - \$44.53</b>
20-Day Average Volume (Shares)	<b>2,611,341</b>
Market Cap	<b>\$14.0 B</b>
Year-To-Date Price Change	<b>-4.6%</b>
Beta	<b>0.58</b>
Dividend / Dividend Yield	<b>\$1.48 / 3.2%</b>
Industry	<b>Food - Miscellaneous</b>
Zacks Industry Rank	<b>Bottom 30% (175 out of 250)</b>

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



Last EPS Surprise	<b>-13.6%</b>
Last Sales Surprise	<b>-0.9%</b>
EPS F1 Estimate 4-Week Change	<b>-5.2%</b>
Expected Report Date	<b>09/02/2021</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>15.1</b>
P/E F1	<b>15.9</b>
PEG F1	<b>NA</b>
P/S TTM	<b>1.6</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,239 E	2,230 E	2,008 E	1,835 E	8,297 E
2021	2,340 A	2,279 A	1,984 A	1,815 E	8,409 E
2020	2,183 A	2,162 A	2,238 A	2,108 A	8,691 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.88 E	\$0.81 E	\$0.66 E	\$0.55 E	\$2.88 E
2021	\$1.02 A	\$0.84 A	\$0.57 A	\$0.47 E	\$2.91 E
2020	\$0.78 A	\$0.72 A	\$0.83 A	\$0.63 A	\$2.95 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 06/11/2021. The report's text and the analyst-provided price target are as of 06/14/2021.

## Overview

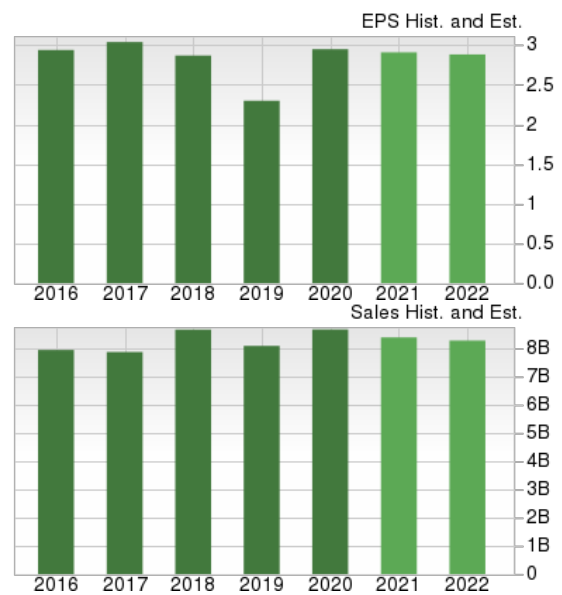
Based in Camden, NJ, Campbell Soup Company, together with its subsidiaries, is a worldwide manufacturer and marketer of high-quality, branded convenience food products. The company was instituted as a business corporation on Nov 23, 1922 under the laws of New Jersey. The company's brands are sold in approximately 120 countries, and its principal geographies include North America, France, Germany, Belgium, and Australia. The widely-recognized brands of the company include Campbell's, Pepperidge Farm, Bolthouse Farms, Arnett's, V8, Swanson, Pace, Prego, Royal Dansk, and Garden of Eatin'.

The Plum baby food and snacks business was divested on May 3, 2021. Further, the company concluded the sale of Arnett's and certain International operations to KKR in December 2019. Also, Campbell divested its European chips business in October 2019. Additionally, it divested Kelsen Group in September 2019 and Campbell Fresh in June 2019.

The company currently reports under the following segments:

Meals & Beverages (52% of Q3 sales) segment includes the retail and food service businesses in the United States and Canada. The segment includes Campbell's condensed and ready-to-serve soups; Swanson broth and stocks; Pacific Foods broth, soups and non-dairy beverages; Prego pasta sauces; Pace Mexican sauces; Campbell's gravies, pasta, beans and dinner sauces; Swanson canned poultry; Plum baby food and snacks; V8 juices and beverages; and Campbell's tomato juice.

Snacks (48% of Q3 sales) segment includes Pepperidge Farm cookies, crackers, fresh bakery and frozen products in U.S. retail, including Milano cookies and Goldfish crackers as well as Snyder's of Hanover pretzels, Lance sandwich crackers, Cape Cod and Kettle Brand potato chips, Late July snacks, Snack Factory Pretzel Crisps, Pop Secret popcorn, Emerald nuts, and other snacking products in the United States and Canada. The segment also includes the retail business in Latin America.



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## Reasons To Sell:

▼ **Dismal Q3 Results:** Shares of Campbell Soup have declined 2.4% in the past three months, against the industry's rise of 5.6%. The company reported soft results for third-quarter fiscal 2021, as both top and bottom lines declined year over year and missed the respective Zacks Consensus Estimate. To top it, management slashed its adjusted earnings before interest and taxes (EBIT) and adjusted earnings per share (EPS) guidance. Third-quarter sales were largely hurt by tough comparisons with the year-ago period, which benefited from the initial demand spike due to the pandemic-led at-home consumption. Apart from this, quarterly results were affected by the increasing inflationary landscape (discussed below).

Third-quarter sales were largely hurt by tough comparisons with the year-ago period, which benefited from the initial pandemic-led demand spike. Also, increasing cost inflation is a worry.

During the third quarter, adjusted earnings from continuing operations tumbled 31% year over year to 57 cents per share, which fell short of the Zacks Consensus Estimate of 66 cents. The downside was a result of reduced adjusted EBIT. Net sales of \$1,984 million decreased 11% year on year and missed the Zacks Consensus Estimate of \$2,001.3 million. Further, organic sales declined 12%, as the company lapped the year-ago period's unexpected food demand surge stemming from the elevated at-home consumption at the beginning of the pandemic.

▼ **Lowered Guidance:** Based on its third-quarter results and impacts from the divestiture of the Plum baby food and snacks business (on May 3), management revised its guidance for fiscal 2021. Also, the company expects to encounter continued margin pressure in the fourth quarter. Moreover, management highlighted that fiscal 2020 included an additional week, which was estimated to contribute 2 percentage points to net sales and about 4 cents to the bottom line.

For fiscal 2021, the company now expects net sales to decline in a band of 3-3.5% compared with a 2.5-3.5% decrease expected earlier. Organic net sales are anticipated to fall 0.7-1.2% now, in comparison with a 0.5-1.5% decline projected before. Adjusted EPS is envisioned in the range of \$2.90-\$2.93 now, indicating a 1-2% dip from the figure reported in the year-ago period. Prior to this, the bottom line was anticipated to be \$3.03-\$3.11 per share, indicating growth of 3-5% from adjusted EPS of \$2.95 reported in the prior year.

▼ **Inflationary Headwinds:** We note that the company has been struggling with cost inflation for a while. During the third quarter of fiscal 2021, adjusted gross margin contracted 290 basis points to 31.8%. The downside was caused by cost inflation (especially freight rate), other supply-chain expenses, adverse mix and reduced operating leverage. The gross margin bore the brunt of an increasing inflationary landscape, transition into a post-pandemic operating environment, short-term rise in supply-chain expenses and some executional headwinds related to the transformation plan (mainly in the Snacks segment). Adjusted EBIT plunged 27% to reach \$283 million mainly on account of lower sales volumes and reduced adjusted gross margin, somewhat made up by a decline in marketing and selling costs.

Also, the company expects to encounter continued margin pressure in the fourth quarter due to transitioning out from the pandemic-led landscape as well as stronger inflation. Adjusted EBIT is now envisioned to decline 4-5% in fiscal 2021. Earlier, adjusted EBIT growth was forecasted in the range of a 1% decline to a 1% increase.

▼ **Currency Headwinds Pose a Concern:** Due to its exposure to the international markets, Campbell Soup remains vulnerable to currency fluctuations. This is because a strengthening U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the U.S. Thus, adverse currency movements are a worry for the company.

▼ **Competitive Risk:** Since Campbell Soup operates in the food industry, it faces intense global competition for nearly all its key products. The company mainly competes on grounds of taste, brand recognition, advertising, quality, convenience, price, promotion and service. Further, some of its rivals boast solid financial and marketing resources, among others. Consequently, excessive pressure from competitors or a shift in consumers' preferences may cause Campbell Soup to incur greater marketing and other costs, reduce prices or lose market share, all of which are likely to hurt overall performance.

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## Risks

- **Savings Plan Bodes Well:** Campbell Soup has been progressing well with its cost savings plan. The company's strategy of concentrating on supply-chain efficiencies, along with curtailing costs and reinvesting part of these savings in areas with high growth potential is noteworthy. In fact, gains from improvement in supply-chain productivity, cost-saving efforts and changes in mark-to-market adjustments offered respite to the company's otherwise weak gross margin in the third quarter of fiscal 2021. During the quarter, Campbell generated savings worth \$20 million as part of its multi-year, cost-saving program, which included synergies associated with the Snyder's-Lance buyout. With this, the company generated total program-to-date savings of nearly \$780 million. Management continues to anticipate annualized savings of \$850 million by fiscal 2022-end. These factors, along with Campbell Soup's prudent investment and strategic efforts toward product innovation and brand building bode well.
  - **Pricing Endeavors to Aid:** On its third-quarter fiscal 2021 earnings call, management stated that it is undertaking necessary actions to tide over the inflated cost hurdles, which includes taking pricing initiatives. Management stated that it expects gains from its pricing actions, along with its solid productivity plans to help counter inflated cost pressure in fiscal 2022.
  - **Brand Strength:** Campbell Soup remains encouraged by its brand strength. In the third quarter of fiscal 2021, roughly 75% of the company's brand portfolio saw constant or increased market share. Management stated that most of its brands increased at elevated rates compared with the pre-pandemic level, across its core categories. Brand strength was supported by healthy retention of households as well as distribution level recovery. Also, the initial foodservice business revival acted as an upside. On a two-year comparison basis, the company's brand consumption increased 9% in the quarter, backed by supply and service investments; as well as prudent brand investments like advertising and consumer promotion. Although fourth-quarter organic sales are expected to decline year over year, it is estimated to rise sequentially, on the back of slightly eased comparisons with the year-ago period and continued recovery in the foodservice business.
  - **Financial Analysis:** Campbell Soup's total debt at the end of the third quarter of fiscal 2021 (as of May 2, 2021) decreased 13.6% sequentially to \$5,201 million. The company also reported total cash and cash equivalents of \$209 million as of May 3. Moreover, the company's times interest earned ratio stands at 5.8, higher than the industry's ratio of 3.5. 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. Campbell Soup remains focused on returning value to shareholders. As part of its third-quarter earnings release, management authorized a new anti-dilutive share buyback plan worth up to \$250 million, which was effective from Jun 9. That said, the company's buyback program of March 2017 remained suspended. Campbell Soup also looks well placed on the dividend-payout front. Recently, management announced a dividend of 37 cents per share, which is payable on Aug 2, 2021. Notably, Campbell Soup has a dividend payout ratio of 47.7%, dividend yield of 3.2% and free cash flow yield of 6.2%. With an annual free cash flow return on investment of 11.2%, ahead of the industry's 7.9%; the dividend payment is likely to be sustainable.
  - **Snacks Business:** Campbell Soup has been benefitting from its growing Snacks business. The segment formed almost 48% of the company's top line in the third quarter of fiscal 2021, compared with roughly 43% in the preceding quarter. Although sales in the segment declined year over year in the third quarter, in-market consumption rose 14% on a two-year basis. For the same period, total consumption of snacks increased 10%. The company saw a year-over-year higher share across a number of its power brands. The company continued to gain from strength in Late July snacks, Kettle Brand potato chips, Snack Factory Pretzel Crisps and Lance sandwich crackers. Also, Pepperidge Farm Farmhouse products delivered strong performance, with 9% in-market consumption growth compared with the year-ago period. Apart from these, the Goldfish category reverted to witnessing share growth. We believe that brands under the snacking category are likely to continue boosting performance, backed by innovations as well as favorable customer response.
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## Last Earnings Report

### Campbell Q3 Earnings & Sales Lag Estimates, EPS View Cut

Campbell Soup reported soft results for third-quarter fiscal 2021. Adjusted earnings from continuing operations tumbled 31% year over year to 57 cents per share, which fell short of the Zacks Consensus Estimate of 66 cents. The downside was a result of reduced adjusted EBIT.

Net sales of \$1,984 million decreased 11% year on year and missed the Zacks Consensus Estimate of \$2,001.3 million. Further, organic sales declined 12%, as the company lapped the year-ago period's unexpected food demand surge stemming from the elevated at-home consumption at the beginning of the pandemic.

The company's adjusted gross margin contracted 290 basis points to 31.8%. The downside was caused by cost inflation, other supply-chain expenses, adverse mix and reduced operating leverage. Nevertheless, gains from improvement in supply-chain productivity, cost-saving efforts and changes in mark-to-mark adjustments offered respite. Adjusted EBIT plunged 27% to reach \$283 million mainly on account of lower sales volumes and reduced adjusted gross margin, somewhat made up by a decline in marketing and selling costs.

**Meals & Beverages:** Net sales declined 14% year over year to \$1,039 million, with organic sales down 15%. The downside mainly resulted from declines in all U.S. retail products (including U.S. soup and Prego pasta sauces), along with softness across Canada and foodservice. Volumes in U.S. retail were hurt as the company lapped the year-ago period's major demand increase. U.S. soup sales fell 21% due to weakness in condensed soups, broth and ready-to-serve soups. Operating earnings in the unit tanked 35%.

**Snacks:** Net sales in this division were down 8% (both reported and organic) to \$945 million. The segment was hurt by weakness in salty snacks like Pop Secret popcorn, Cape Cod potato chips and Snyder's of Hanover pretzels, along with softness in Lance sandwich crackers, partner brands and fresh bakery. Volumes were partly affected by the lapping of solid demand in the year-ago period. Segmental operating earnings declined 29%.

### Other Financial Details

As of May 2, 2021, Campbell's total cash and cash equivalents stood at \$209 million, long-term debt was \$4,997 million and total equity amounted to \$2,995 million. The company generated \$881 million as cash flow from operations during the nine months ended May 2. Also, capital investments amounted to \$190 million in that period. Additionally, management authorized a new anti-dilutive share buyback plan worth up to \$250 million, which is effective from today. That said, the company's buyback program of March 2017 remains suspended.

During the third quarter, Campbell generated savings worth \$20 million as part of its multi-year, cost-saving program, which included synergies associated with the Snyder's-Lance buyout. With this, the company generated total program-to-date savings of nearly \$780 million. Management continues to anticipate annualized savings of \$850 million by fiscal 2022-end.

### Fiscal 2021 Guidance

Based on its third-quarter results and impacts from the divestiture of the Plum baby food and snacks business (on May 3), management revised its guidance for fiscal 2021. Also, the company expects to encounter continued margin pressure in the fourth quarter due to transitioning out from the pandemic-led landscape as well as stronger inflation. Pricing actions are expected to take shape in fiscal 2022 beginning. Moreover, management highlighted that fiscal 2020 included an additional week, which was estimated to contribute 2 percentage points to net sales and about 4 cents to the bottom line.

For fiscal 2021, the company now expects net sales to decline in a band of 3-3.5% compared with a 2.5-3.5% decrease expected earlier. Organic net sales are anticipated to fall 0.7-1.2% now, in comparison with a 0.5-1.5% decline projected before. Adjusted EBIT is now envisioned to decline 4-5%. Earlier, adjusted EBIT growth was forecasted in the range of a 1% decline to a 1% increase. Finally, adjusted EPS is envisioned in the range of \$2.90-\$2.93 now, indicating a 1-2% dip from the figure reported in the year-ago period. Prior to this, the bottom line was anticipated to be \$3.03-\$3.11 per share, indicating growth of 3-5% from adjusted EPS of \$2.95 reported in the prior year.

Quarter Ending	04/2021
Report Date	Jun 09, 2021
Sales Surprise	-0.86%
EPS Surprise	-13.64%
Quarterly EPS	0.57
Annual EPS (TTM)	3.06

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## Recent News

### Campbell Soup Declares Dividend – May 26, 2021

Campbell Soup announced a dividend of 37 cents per share. The dividend is payable on Aug 2, 2021 to shareholders of record as on Jul 14.

### Campbell Soup to Divest Plum Organics – Mar 31, 2021

Campbell Soup announced plans to sell a well-known premium, organic baby food and kids snacks brand — Plum Organics — to Sun-Maid Growers of California. Management highlighted that the divestiture is in tandem with its ongoing strategic process to enhance focus core categories like soup, sauces and beverages. The company expects to conclude the deal in spring 2021.

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## Valuation

Campbell Soup shares are down 3.2% in the year-to-date period and 1.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.3% in the year-to-date period, while the Zacks Consumer Staples sector gained 8.4%. Over the past year, the Zacks sub-industry is up 28.3%, while the sector gained 27.3%.

The S&P 500 index is up 14.5% in the year-to-date period and 42.8% in the past year.

The stock is currently trading at 15.97X forward 12-month earnings, which compares to 19.81X for the Zacks sub-industry, 20.84X for the Zacks sector and 21.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.58X and as low as 10.67X, with a 5-year median of 16.22X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$39 price target reflects 13.57X forward 12-month earnings.

The table below shows summary valuation data for CPB

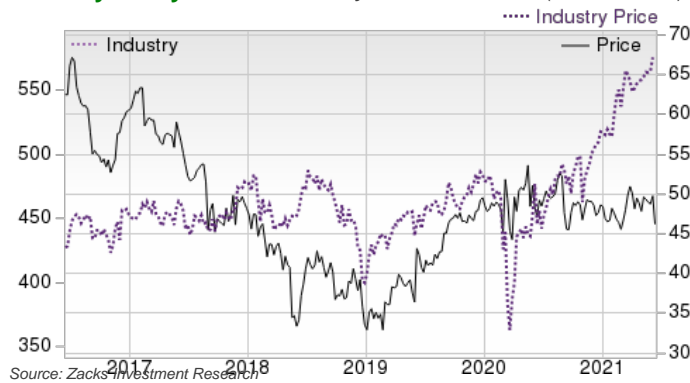
Valuation Multiples - CPB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.97	19.81	20.84	21.86
	5-Year High	21.58	22.92	22.4	23.83
	5-Year Low	10.67	14.67	16.51	15.31
	5-Year Median	16.22	18.34	19.5	18.05
P/S F12M	Current	1.68	1.76	10.46	4.73
	5-Year High	2.57	2.02	11.94	4.74
	5-Year Low	0.98	1.35	8.57	3.21
	5-Year Median	1.75	1.66	10.32	3.72
EV/EBITDA F12M	Current	11.2	12.43	35.51	17.23
	5-Year High	13.19	13.64	37.87	18.83
	5-Year Low	6.9	10.41	25.78	13.04
	5-Year Median	10.59	12.54	33.96	15.9

As of 06/11/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Bottom 30% (175 out of 250)



## Top Peers

Company (Ticker)	Rec	Rank
BRF S.A. (BRFS)	Neutral	3
CONAGRA BRANDS (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Ingredion Incorporated (INGR)	Neutral	3
Kerry Group PLC (KRYAY)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3
Tingyi Cayman Islands Holdings Corp. (TCYMF)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	4

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CPB	X Industry	S&P 500	BRFS	KRYAY	SJM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	B	-	-	A	B	B
Market Cap	13.97 B	4.38 B	30.51 B	4.65 B	23.37 B	14.93 B
# of Analysts	7	3	12	2	1	7
Dividend Yield	3.21%	0.00%	1.28%	0.00%	0.81%	2.64%
Value Score	B	-	-	A	C	A
Cash/Price	0.01	0.05	0.05	0.36	0.03	0.02
EV/EBITDA	13.04	14.26	17.43	6.55	NA	10.05
PEG F1	NA	3.40	2.13	NA	NA	12.85
P/B	4.66	3.49	4.16	3.03	4.39	1.84
P/CF	11.36	13.72	17.74	6.34	25.17	10.10
P/E F1	15.85	24.25	21.48	15.89	28.18	15.29
P/S TTM	1.60	1.53	3.50	0.61	NA	1.87
Earnings Yield	6.31%	3.96%	4.57%	6.29%	3.55%	6.54%
Debt/Equity	1.67	0.44	0.66	2.73	0.54	0.43
Cash Flow (\$/share)	4.06	2.52	6.83	0.90	5.25	13.48
Growth Score	C	-	-	A	B	D
Historical EPS Growth (3-5 Years)	-0.60%	2.14%	9.44%	NA	NA	5.76%
Projected EPS Growth (F1/F0)	-1.36%	3.14%	21.49%	9.09%	18.73%	-2.27%
Current Cash Flow Growth	7.36%	3.00%	0.86%	-16.24%	-6.68%	2.21%
Historical Cash Flow Growth (3-5 Years)	2.72%	5.21%	7.28%	-8.27%	4.92%	3.98%
Current Ratio	0.94	1.74	1.39	1.51	1.53	0.68
Debt/Capital	62.53%	32.68%	41.51%	73.21%	34.99%	30.21%
Net Margin	9.18%	5.55%	11.95%	3.55%	NA	10.95%
Return on Equity	33.21%	12.26%	16.36%	18.23%	NA	12.35%
Sales/Assets	0.71	0.96	0.51	0.81	NA	0.48
Projected Sales Growth (F1/F0)	-3.25%	1.84%	9.41%	0.00%	12.07%	-2.83%
Momentum Score	C	-	-	B	D	B
Daily Price Change	0.85%	0.12%	0.19%	4.38%	-0.36%	0.41%
1-Week Price Change	-7.19%	-0.11%	0.41%	0.00%	-2.07%	-2.56%
4-Week Price Change	-6.41%	1.24%	1.76%	43.36%	0.00%	0.67%
12-Week Price Change	-7.39%	2.57%	8.54%	22.48%	5.64%	7.79%
52-Week Price Change	-2.04%	36.54%	39.66%	33.65%	4.14%	30.12%
20-Day Average Volume (Shares)	2,611,341	120,635	1,744,383	7,609,688	6,927	866,568
EPS F1 Estimate 1-Week Change	-5.26%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-5.21%	0.00%	0.03%	2.86%	0.00%	1.78%
EPS F1 Estimate 12-Week Change	-5.12%	0.00%	3.52%	4.35%	1.74%	3.18%
EPS Q1 Estimate Monthly Change	-12.43%	0.00%	0.00%	NA	NA	-0.08%

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we 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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>B</b>

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

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## 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.

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**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.

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**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.

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**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.