May 17, 2021

Diageo plc (DEO)

$189.21 (As of 05/14/21)

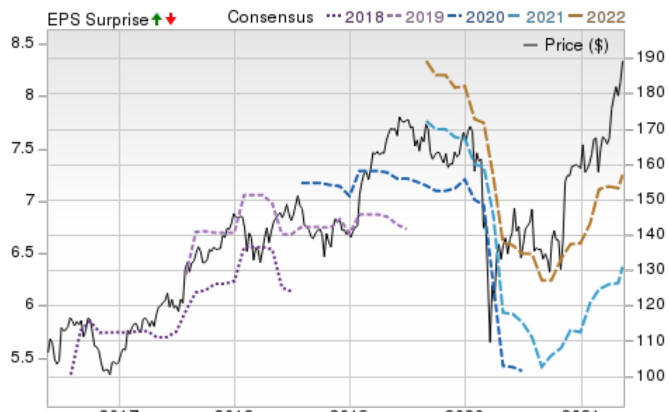
Price Target (6-12 Months): **$199.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/05/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: A | Momentum: B	

Summary

Diageo has outpaced the industry year to date, thanks to sequential organic sales and operating margin gains in the first half of fiscal 2021, despite earnings and sales decline. Organic sales returned to growth in the first half of fiscal 2021, driven by efforts to quickly respond to increased off-trade channel demand and changes in consumer occasions, as well as investments in new opportunities. Also, strong consumer demand, market share growth in the spirits category and positive category mix aided net sales for the North America business. Moreover, the company expects improvements across all regions from the second half of fiscal 2020. However, continued disruptions in Travel Retail and on-trade businesses remain concerns. Also, Diageo's margin performance was hurt by continued pressures from cost inflation.

Price, Consensus & Surprise

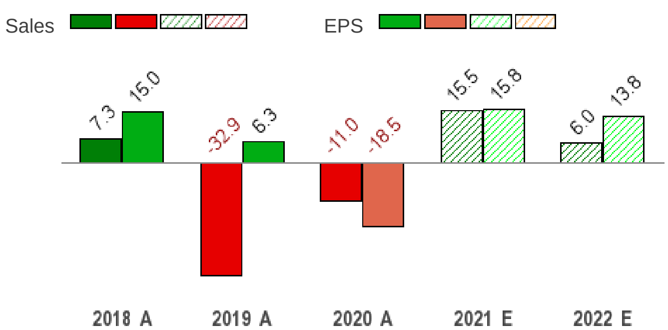


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$190.34 - $127.12**
20-Day Average Volume (Shares)	**433,638**
Market Cap	**$110.7 B**
Year-To-Date Price Change	**19.1%**
Beta	**0.67**
Dividend / Dividend Yield	**$3.05 / 1.6%**
Industry	**Beverages - Alcohol**
Zacks Industry Rank	**Top 46% (115 out of 251)**
Last EPS Surprise	**NA**
Last Sales Surprise	**NA**
EPS F1 Estimate 4-Week Change	**0.3%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**29.7**
PEG F1	**3.6**
P/S TTM	**NA**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					18,141 E
2021					17,111 E
2020					14,817 A

EPS Estimates

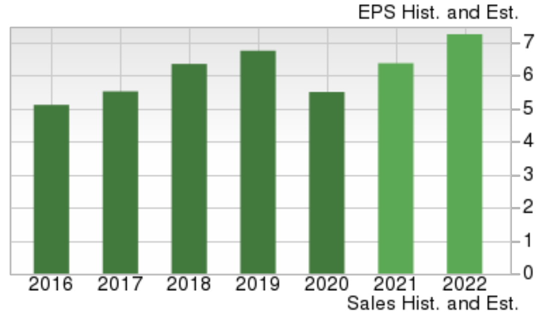
	Q1	Q2	Q3	Q4	Annual*
2022					$7.25 E
2021					$6.37 E
2020					$5.50 A

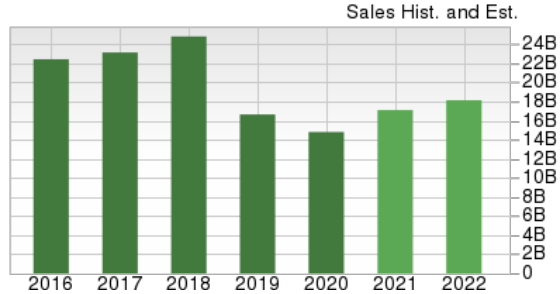
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 05/14/2021. The report's text and the analyst-provided price target are as of 05/17/2021.

Overview

London-based Diageo plc operates in approximately 180 countries and is involved in producing, distilling, brewing, bottling, packaging as well as distributing spirits, wine and beer. The company offers its products under globally recognized flagship brands, such as Smirnoff, Johnnie Walker, Captain Morgan, Baileys, Buchanan's, J&B, Tanqueray and Guinness. Among these, 14 brands – Johnnie Walker, Smirnoff, Baileys, Crown Royal, Captain Morgan, Jose Cuervo, JeB, Buchanan's, Windsor, Ketel One vodka, Cîroc, Tanqueray, Bushmills and Guinness – are classified as global strategic brands.





The company operates through five regions:—

North America includes four operating units — U.S. Spirits, Diageo-Guinness USA, Diageo Chateau & Estate Wines Co. and Diageo Canada.

Europe comprises Great Britain, Ireland, Iberia, France, Germany, Benelux, Italy, Nordics, Greece, Switzerland, Austria, the Western European reserve brands, Diageo Guinness Continental Europe, European wines and the Western European operations of Global Travel. Western Europe.

Africa is one of the oldest and largest markets for the Guinness brand. The company operates either through subsidiaries or under license.

Latin America and the Caribbean region, which includes Mexico, Diageo distributes mainly through a mixture of Diageo companies and third-party distributors. In addition, Diageo owns a controlling interest in Desnoes & Geddes Limited, the Jamaican brewer of Red Stripe lager.

Asia Pacific includes operations in India, China, Australia, New Zealand, South Korea, Japan, Thailand, Vietnam, Singapore, Malaysia and other Asian markets.

Source: Zacks Investment Research

Reasons To Buy:

Diageo's organic sales returned to growth in 1H FY21 as it quickly responded to increased off-trade channel demand and changes in consumer occasions, along with investments in new opportunities.

- **1H FY21 Results Suggest Sequential Growth:** Shares of Diageo increased 19.2% yaer to date, outpacing the industry's 9.5% growth. Although Diageo reported earnings and sales decline in first half of fiscal 2021, ended Dec 31, 2020, its organic sales and operating margin reflected sequential gains from the second half of fiscal 2020. Notably, organic net sales were up 1%, while organic operating profit declined 3.4% year over year. Organic sales returned to growth in the first half of fiscal 2021, driven by efforts to quickly respond to increased demand in the off-trade channel and changes in consumer occasions, as well as investments in new opportunities. Further, growth was aided by fast recovery in certain markets, particularly North America and Greater China. The growth in organic sales was also driven by organic volume growth in North America and Latin America, as well as positive price/mix. In the first half of fiscal 2021, organic operating margin declined 153 basis points (bps). On a sequential basis, organic operating margin improved, driven by higher operating leverage and tight management of discretionary expenditure.

- **Strong North America Performance & Sequential Growth Across Other Regions:** In North America, which is Diageo's largest market, sales accelerated 12.3%, which was offset by decline in other regions, except for Africa that reported flat revenues. Sales growth in North America was backed by strong consumer demand, market share growth in the spirits category, positive category mix, and uninterrupted stock replenishments by distributors and retailers. Also, all three key markets in North America witnessed growth. Notably, net sales for the U.S. Spirits business improved 15%, with growth across all categories. Net sales for Diageo Beer Company USA and Canada grew 7% each. Meanwhile, sales across all other regions reflected marked improvement from the second half of fiscal 2020. The sequential gains were mainly driven by improved market share on excellent off-trade channel execution and partial reopening of the on-trade channel in some markets.

- **Decent Outlook:** Although Diageo did not provide specific guidance citing the continuation of uncertainty, it expects improvements across all regions from the second half of fiscal 2020. The company expects the momentum in North America to continue, while the pace of recovery in other regions will be more closely associated with the reopening of the on-trade channel and the level of restrictions applied. The company predicts organic operating margin in the second half of fiscal 2021 to be ahead of organic net sales across all regions, except for North America, due to weak comparable period. Notably, North America witnessed organic operating margin growth in the second half of fiscal 2020.

- **Digital Investments:** Diageo is relentlessly working to leverage its existing e-commerce capabilities and accelerate investments in the online platform to cater to the pandemic-driven shift in consumer shopping behavior. As the online platform has become more relevant amid the pandemic, the company has diverted its efforts to connect with consumers and maintain brand relevance, by responding to increased opportunities of at-home consumption occasions. This included new occasion like wanting to enjoy bar-quality drinks at home. Further, the company has inspired consumers with cocktail recipes, new serves and ways to enjoy its brands with food. It also rapidly responded to increased demand for home delivery. In the United States and Latin America, it reached customers with new "cocktail to go' programs. In East Africa, the company explored new ways to get products delivered at consumers' homes, through partnerships with motorbike delivery companies, known as boda-bodas.

- **Financial Status:** Despite the impacts of the pandemic on its operating profit, Diageo managed to deliver strong operating cash flow and free cash flow in the first half of fiscal 2021. It generated net cash from operating activities of £2 billion, which reflected a increase of £0.7 billion from last year. Furthermore, the company reported free cash flow of about £1.8 billion, up £0.8 billion from the last year due to lower tax payments and working capital benefits, driven by reduced creditor balances at the end of fiscal 2020. Diageo also remains committed to its disciplined approach to capital allocation primarily to enhance shareholder value. The company increased the interim dividend by 2% from the fiscal 2020 dividend rate. This reflects its strong liquidity position and confidence in the long-term health of its business.

Reasons To Sell:

> In the first half of fiscal 2021, Diageo continued to witness headwinds due to disruptions in Travel Retail and on-trade businesses. Continued customer destocking in Travel Retail hurt the top line.

- **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Diageo looks overvalued when compared with the Consumer Staples sector and the market at large. The stock has a trailing 12-month P/E ratio of 34.4x, which is above the median level of 28.25x and at par with the high level scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 24.54x for the Consumer Staples sector and 27.49x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

- **On-Trade and Global Travel Disruptions:** Although Diageo's organic volumes improved in the first half of fiscal 2021, it continued to witness headwinds due to disruptions in Travel Retail and on-trade businesses. Continued customer destocking in Travel Retail hurt the top line. Driven by continued international travel restrictions, Travel Retail business net sales declined 72%, 100% and 81%, respectively, in Europe, Latin America and Caribbean, and Asia and Middle East segments. Further, sales were impacted by the widespread closure of bars and restaurants around the world (on-trade channel). Notably, the on-trade segment, which is the sale of alcoholic beverages in licensed premises, accounts for nearly 40-50% of Diageo's revenues. High exposure and restrictions in the on-trade channel impacted sales in Ireland, Southern Europe, Eastern Europe, Kenya, India, Caribbean and Central America, and Mexico, in the first half.

  Though trends in the on-trade channel are picking up due to re-opening of restaurants and bars, the company expects the level of restrictions to vary regionally. Moreover, it expects the Travel Retail business to be largely impacted due to lesser travelers in the second half of fiscal 2021.

- **Higher Costs Persist:** Diageo's margin performance was hurt by continued pressures from cost inflation, thanks to the pandemic. Notably, everyday cost efficiencies led to productivity gains in the first half of fiscal 2021, which was partly offset by cost of goods sold (COGS) inflation. The company's gross margin contracted 174 basis points (bps) in first half of fiscal 2021, on adverse channel and product mix, particularly in the Guinness beer business as well as declines in the high-margin Travel Retail business. Also, the company witnessed inflationary pressures from commodity costs. Further, organic operating margin contracted 153 bps, owing to soft gross margin and on-time costs, partially negated by overhead efficiencies. The company expects organic operating margin in the second half to be pressured by channel and product mix due to the impacts on Travel Retail and restrictions on on-trade.

- **Higher Taxes:** The beer and beverage industry remains susceptible to unfavorable changes in taxes. In many regions, these taxes constitute a major chunk of the cost of beer that is charged to customers. Thus, any rise in excise taxes or indirect taxes on Diageo's products is likely to shift consumers' preferences to other beverages and weigh upon the overall consumption of the company's products, thus hurting its revenues and margins. Consequently, adverse taxation amendments remain a hurdle for the company's profitability.

- **Macroeconomic Concerns:** Diageo's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability.

Last Earnings Report

Diageo 1H Earnings & Sales Reflect Sequential Gains

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	NA
EPS Surprise	NA
Quarterly EPS	NA
Annual EPS (TTM)	NA

Diageo reported interim results for the first half of fiscal 2021, ended Dec 31, 2020, wherein pre-exceptional earnings per share declined 12.8% year over year to 69.9 pence (in local currency). This was backed by a decline in operating profits and unfavorable currency rates. However, the company noted that sales and operating margin reflected gains from the second half of fiscal 2020.

Although it did not provide specific guidance citing the continuation of uncertainty, it provides an optimistic outlook for the second half of fiscal 2021. It expects improvements across all regions from the second half of fiscal 2021. The company expects the momentum in North America to continue, while the pace of recovery in other regions will be more closely associated with the reopening of the on-trade channel and the level of restrictions applied. Additionally, it expects the Travel Retail business to be largely impacted due to lesser travelers.

The company predicts organic operating margin in the second half of fiscal 2021 to be ahead of organic net sales across all regions, except for North America, due to weak comparable period. Notably, North America witnessed organic operating margin growth in the second half of fiscal 2020. Moreover, organic operating margin in the second half will likely be pressured by channel and product mix due to the impacts on Travel Retail and restrictions on on-trade.

1H FY21 Highlights

On a reported basis, net sales and operating profit declined 4.5% and 8.3%, respectively, owing to unfavorable exchange rates. Organic net sales were up 1%, while organic operating profit declined 3.4% year over year. Organic volume was down 0.2% as volume growth in North America and Latin America were more than offset by declines in other regions. However, price/mix grew 1.2%.

Organic sales returned to growth in the first half of fiscal 2021, driven by efforts to quickly respond to increased demand in the off-trade channel and changes in consumer occasions, as well as investments in new opportunities. Further, growth was aided by fast recovery in certain markets, particularly North America and Greater China. However, organic sales were significantly impacted by declines in Travel Retail and on-trade restrictions.

In North America, which is the company's largest market, sales accelerated 12.3%, which offset the decline in other regions, except for Africa that reported flat revenues. Sales growth in North America was backed by strong consumer demand, market share growth in the spirits category, positive category mix, and uninterrupted stock replenishments by distributors and retailers.

Meanwhile, sales across all other regions reflected marked improvement from the second half of fiscal 2020. The sequential gains were mainly driven by improved market share on excellent off-trade channel execution and partial reopening of the on-trade channel in some markets.

Organic operating profit was marred by adverse channel and category mix. Notably, everyday cost efficiencies led to productivity gains, which mostly offset the cost of goods sold inflation. In the first half of fiscal 2021, organic operating margin declined 153 basis points (bps). On a sequential basis, organic operating margin improved, driven by higher operating leverage and tight management of discretionary expenditure.

Financials

In the first half of fiscal 2021, Diageo delivered net cash from operating activities of £2 billion, marking an increase of £0.7 billion year over year. Furthermore, the company reported strong free cash flow of £1.8 million, up £0.8 billion from the last year due to lower tax payments and working capital benefits, driven by reduced creditor balances at the end of fiscal 2020.

Diageo remains committed to its disciplined approach to capital allocation primarily to enhance shareholder value. The company increased the interim dividend by 2% from the fiscal 2020 dividend rate. This reflects its strong liquidity position and confidence in the long-term health of its business.

Recent News

Diageo Outlines Expansion Plans to Cash-In on RTDs Boom – Mar 18, 2021

Diageo is capitalizing on the shift in consumption trends to ready-to-drink (RTDs) beverages stemming from the pandemic-led closures of bars and restaurants and increasing stay-at-home practices. Ready-to-drink beverages or RTDs, including iced coffees and teas, yoghurt drinks, to canned wines and cocktails, offer consumers the benefit of immediate consumption after purchase. Among these, ready-to-drink alcoholic beverages have emerged as a significant player in this category, with North America being the fastest-growing market, followed by Japan, as per sources.

Keeping in these lines, Diageo intends to expand its manufacturing capability by installing two can lines at a new facility in Plainfield, IL. The two lines at the new facility will have a capacity of producing 500 cans per minute (CPM) and 1,200 CPM. This facility, which will be worth roughly $80 million, comes with the capacity to produce more than 25 million cans of RTDs and will be ready for commercial production by the summer of 2021. Currently, the company has Smirnoff seltzers along with Crown Royal and Ketel One Botanicals in the RTDs cocktail category. This move is in sync with consumers' increasing demand for beverages that are convenient for at-home consumption. Also, this latest development will add to its existing ready-to-drink production across North America and help expand its RTDs offering. Apart from these, the new 225,000 square-feet facility will create 50 full-time employment for the people of Plainfield.

Diageo Launches Crown Royal Ready-to-Drink Product Line – Mar 8, 2021

Diageo is positioned to make the most of the shift in trends to ready-to-drink bar-quality cocktails through the launch of its Crown Royal ready-to-drink canned cocktail line. This will mark the Crown Royal Whiskey brand's debut in the ready-to-drink cocktail space. The brand's new line features three flavors, including Washington Apple, Whisky & Cola and Peach Tea. The Washington Apple flavor features Crown Royal whisky, apple and sparkling cranberry flavors. The Whisky & Cola will include Crown Royal whisky with Cola, while the Peach Tea flavor will comprise Crown Royal whisky, peach flavor and brewed tea.

Notably, the pandemic-led closures of bars and restaurants have resulted in a shift in alcohol consumption trends to more at-home occasions. This has led to the rise in popularity of bar-like ready-to-drink cocktails in canned packaging available in retail and liquor stores. Alcohol companies have been taking advantage of the new trend through the launch of innovative varieties of ready-to-drink cocktails. Between 2016 and 2019, the ready-to-drink category has witnessed growth of 20% in the United States on 259% growth in the hard seltzer segment.

Some of Diageo's recent launches in the canned cocktail space are Ketel One Botanical vodka spritz, Tanqueray crafted gin drinks and Crown Royal cocktails.

Valuation

Diageo shares are up 19.2% in the year-to-date period and nearly 35% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 9.5% and 6.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 47.7% and 27.2%, respectively.

The S&P 500 index is up 11.7% in the year-to-date period and 43.2% in the past year.

The stock is currently trading at 26.49X forward 12-month earnings, which compares to 28.73X for the Zacks sub-industry, 20.9X for the Zacks sector and 21.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.8X and as low as 14.61X, with a 5-year median of 21.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $199.00 price target reflects 27.86X forward 12-month earnings.

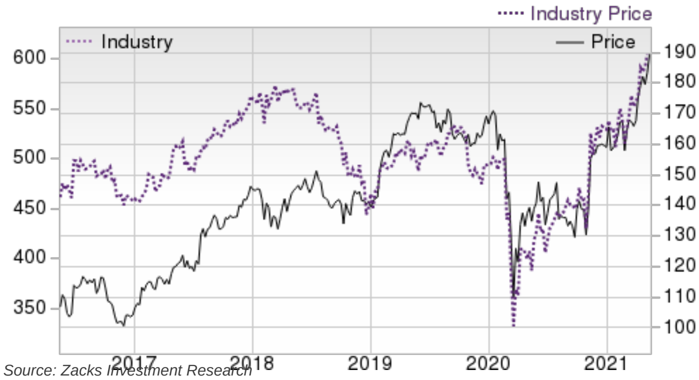
The table below shows summary valuation data for DEO

Valuation Multiples - DEO

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.49	28.73	20.9	21.87
	5-Year High	26.8	28.73	22.4	23.83
	5-Year Low	14.61	18.78	16.52	15.3
	5-Year Median	21.7	23.74	19.53	18.02
P/S F12M	Current	6.14	18.23	10.45	4.69
	5-Year High	6.95	20.67	11.96	4.74
	5-Year Low	3.51	12.93	8.59	3.21
	5-Year Median	5.26	17.06	10.34	3.71
EV/EBITDA TTM	Current	21.33	59.01	44.9	16.79
	5-Year High	23.12	59.01	46.58	17.71
	5-Year Low	14.43	29.05	28.11	9.61
	5-Year Median	19.05	45.87	40	13.4

As of 05/14/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 46% (115 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Ambev S.A. **(ABEV)**	Neutral	3
Carlsberg AS **(CABGY)**	Neutral	2
Pernod Ricard SA **(PDRDY)**	Neutral	3
The Boston Beer Company, Inc. **(SAM)**	Neutral	3
Constellation Brands Inc **(STZ)**	Neutral	3
Molson Coors Beverage Company **(TAP)**	Neutral	3
Tsingtao Brewery Co. **(TSGTY)**	Neutral	2
Kirin Holdings Co. **(KNBWY)**	Underperform	5

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

Industry Comparison Industry: Beverages - Alcohol

	DEO	X Industry	S&P 500	ABEV	KNBWY	TAP
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	B	A	C
Market Cap	110.68 B	13.86 B	30.57 B	52.08 B	17.30 B	12.62 B
# of Analysts	5	2	12	2	1	7
Dividend Yield	1.61%	0.00%	1.28%	0.45%	2.28%	0.00%
Value Score	C	-	-	B	A	B
Cash/Price	0.04	0.04	0.06	0.07	0.09	0.04
EV/EBITDA	NA	15.29	17.45	10.46	9.59	34.36
PEG F1	3.58	4.04	2.25	18.78	0.83	2.69
P/B	9.99	3.32	4.16	3.40	1.68	0.98
P/CF	21.97	20.27	17.61	15.54	11.84	7.08
P/E F1	29.82	30.66	22.00	26.48	17.75	15.05
P/S TTM	NA	3.17	3.59	4.51	1.00	1.10
Earnings Yield	3.37%	3.26%	4.50%	3.93%	5.63%	6.65%
Debt/Equity	1.72	0.50	0.66	0.03	0.36	0.56
Cash Flow ($/share)	8.61	1.66	6.78	0.21	1.66	8.22
Growth Score	A	-	-	B	A	F
Historical EPS Growth (3-5 Years)	NA%	5.24%	9.39%	-9.79%	NA	4.91%
Projected EPS Growth (F1/F0)	15.85%	25.00%	19.65%	-10.71%	35.37%	-1.39%
Current Cash Flow Growth	20.52%	-0.66%	0.61%	-20.83%	13.22%	-4.08%
Historical Cash Flow Growth (3-5 Years)	4.91%	4.16%	7.37%	-7.58%	15.33%	11.67%
Current Ratio	1.77	1.82	1.39	1.16	1.17	0.66
Debt/Capital	63.28%	35.83%	41.55%	2.82%	26.42%	35.88%
Net Margin	NA%	9.18%	11.70%	20.69%	3.73%	-6.54%
Return on Equity	NA%	12.05%	15.91%	17.03%	6.39%	5.91%
Sales/Assets	NA	0.49	0.50	0.49	0.76	0.41
Projected Sales Growth (F1/F0)	14.02%	6.14%	8.96%	8.25%	0.00%	6.14%
Momentum Score	B	-	-	C	D	C
Daily Price Change	1.54%	0.69%	1.27%	2.80%	1.65%	-0.10%
1-Week Price Change	2.17%	4.09%	2.47%	12.23%	3.28%	8.30%
4-Week Price Change	5.93%	5.89%	2.55%	16.14%	4.56%	9.90%
12-Week Price Change	11.64%	9.38%	11.84%	19.93%	-1.40%	30.62%
52-Week Price Change	40.57%	57.98%	58.58%	62.25%	6.20%	60.32%
20-Day Average Volume (Shares)	433,638	26,854	1,944,748	19,699,726	53,021	2,090,180
EPS F1 Estimate 1-Week Change	0.29%	0.00%	0.00%	4.17%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.29%	1.52%	1.85%	4.17%	0.91%	1.54%
EPS F1 Estimate 12-Week Change	1.27%	-0.18%	2.74%	-3.85%	-20.14%	-0.62%
EPS Q1 Estimate Monthly Change	NA%	0.00%	1.24%	0.00%	NA	-3.15%

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	A
Momentum Score	B
VGM Score	B

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

Disclosures

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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.