

The Walt Disney (DIS)

\$178.35 (As of 06/25/21)

Price Target (6-12 Months): **\$187.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

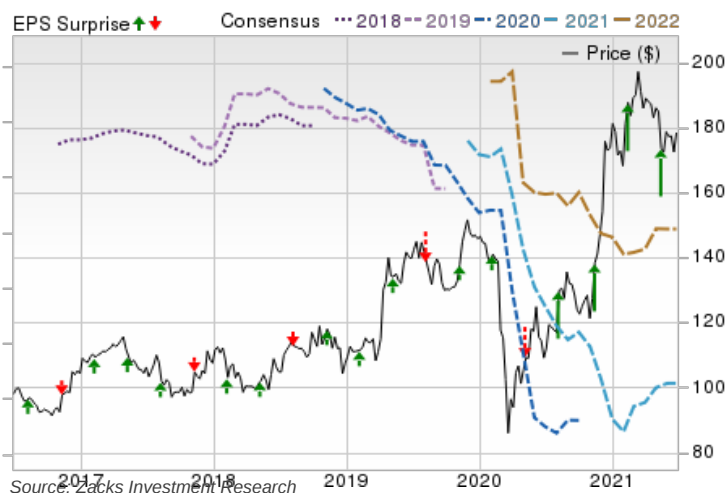
Growth: B

Momentum: C

Summary

Disney benefits from the growing popularity of Disney+, owing to a strong content portfolio and a cheaper bundle offering as reflected by second-quarter fiscal 2021 results. Availability in the Nordics, Latin America and other Asian territories will help in further expanding user base. Additionally, reopening of California theme parks will boost top-line growth. Further, reopening of theaters as COVID-19 restrictions are lifted will drive Disney's studio business. Shares have outperformed the industry year to date. Nevertheless, COVID-19-induced disruptions are expected to hurt the top line as Disney's cruise line business remains close and its re-opened resorts are operating at a lower capacity. These factors are expected to hurt Parks, Experiences and Products profitability. Moreover, a leveraged balance sheet remains a headwind.

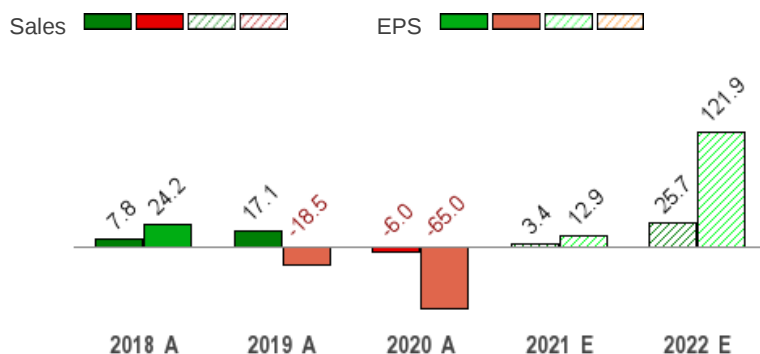
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$203.02 - \$108.10
20-Day Average Volume (Shares)	7,135,721
Market Cap	\$324.0 B
Year-To-Date Price Change	-1.6%
Beta	1.19
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Media Conglomerates
Zacks Industry Rank	Top 50% (127 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	172.4%
Last Sales Surprise	-2.6%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	08/03/2021
Earnings ESP	0.0%
P/E TTM	180.2
P/E F1	78.2
PEG F1	13.9
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	21,459 E	20,807 E	21,417 E	22,876 E	84,989 E
2021	16,249 A	15,613 A	16,890 E	19,158 E	67,604 E
2020	20,858 A	18,009 A	11,779 A	14,707 A	65,388 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.04 E	\$1.22 E	\$1.35 E	\$1.42 E	\$5.06 E
2021	\$0.32 A	\$0.79 A	\$0.57 E	\$0.65 E	\$2.28 E
2020	\$1.53 A	\$0.60 A	\$0.08 A	-\$0.20 A	\$2.02 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 06/25/2021. The report's text and the

analyst-provided price target are as of 06/28/2021.

Overview

Burbank, CA-based Walt Disney Company has assets that span movies, television, publishing and theme parks. Revenues were \$65.39 billion in fiscal 2020.

Media Networks (43.4% of total revenues) segment includes domestic broadcast television network, television production and distribution operations, domestic television stations, cable networks, domestic broadcast radio networks and stations, and publishing and digital operations. The company operates the ABC Television Network and 8 owned television stations; ESPN and Disney Channel cable networks; ESPN Radio and Radio Disney networks.

Studio Entertainment (14.7% of revenues) segment produces animated and live-action motion pictures, direct-to-video programming, musical recordings, and live stage plays. The library of films is distributed under 5 banners namely Walt Disney Pictures, Touchstone Pictures, Pixar, Marvel, and Lucasfilms.

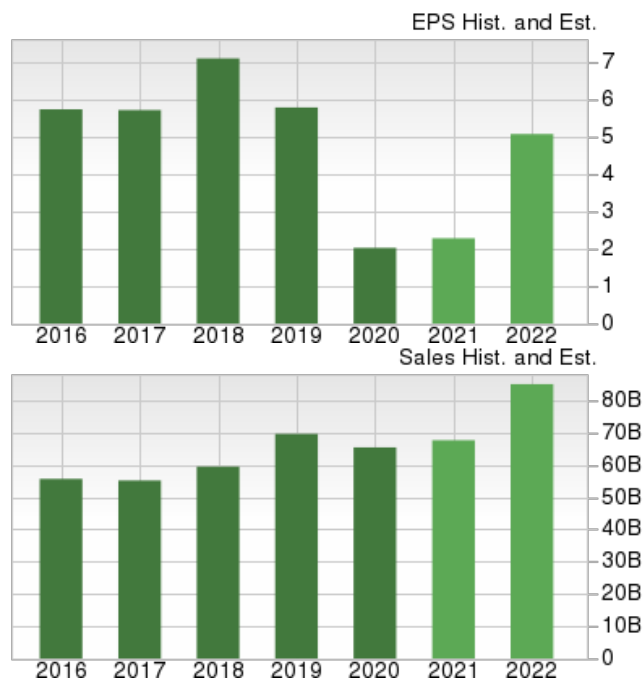
Parks, Experiences & Consumer Products (25.2% of revenues) segment is a combination of global consumer products business with Parks and Resorts. Parks and Resorts owns and operates the Disney World Resort in Florida, the Disneyland Resort in California, the Disney Vacation Club, the Disney Cruise Line, and Adventures by Disney. The company also has ownership interests in Disneyland Paris, in Hong Kong Disneyland Resort and in Shanghai Disney Resort, and licenses the operations of the Tokyo Disney Resort in Japan.

Consumer products business engages with licensees, manufacturers, publishers and retailers to design, develop, publish, promote and sell a wide variety of products based on existing and new Disney characters and other intellectual property via its Merchandise Licensing, Publishing and Retail businesses throughout the world.

Direct-to-Consumer (DTC) & International segment (25.9% of revenues) comprises Disney's direct-to-consumer streaming services, international media operations and global advertising sales and ad technology for Disney media properties including Freeform, ESPN, ABC and Disney Channels.

On Mar 20, 2019, Disney completed the acquisition of 21st Century Fox and got hold of Fox's production, animation and television assets. National Geographic channel, FX Networks and international networks were also part of the deal.

Additionally, the company has acquired full operational control of Hulu.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Disney's expanding streaming service offerings – Disney+, ESPN+, Hulu, and Hotstar – are major growth drivers over the long term. Markedly, Disney+ garnered 103.6 million paid subscribers within a short span of its availability. Hulu and ESPN+ had 41.6 million and 13.8 million paid subscribers, respectively, at the end of the second quarter. Additionally, reopening of California theme parks will boost top-line growth in the second half of fiscal 2021. Moreover, as COVID-19-related restrictions are gradually lifted globally due to vaccination drive, Disney's studio business will benefit from a strong slate of movie releases.
- ▲ Disney+ has emerged as a key growth driver for Disney in recent times. The company launched Disney+ on Nov 12, 2019 in the United States, Canada and The Netherlands. During fiscal 2020, Disney+ was launched in India through the Disney+ Hotstar service, through a strategic partnership with Canal+ in France, and in Japan via a limited launch with NTT DOCOMO. Furthermore, Disney+ was launched in additional European countries in September 2020 and in Latin America in November 2020. Moreover, Disney intends to launch the service in various Asia-Pacific territories in 2021. The international expansions as well as solid content portfolio have helped Disney+ garner a solid subscriber base within a short span of time. Its availability as a bundle in the United States that includes Hulu (with ads) and ESPN for \$13.99 a month is likely to have benefited paid subscriber growth. The company remains on track to achieve its prior guidance of 230-260 million paid subscribers by the end of fiscal 2024.
- ▲ Disney+'s solid content portfolio has been a key catalyst. The service offers nearly 700 movies and 11,700 episodes of television shows from brands such as Disney, Pixar, Marvel, Star Wars and National Geographic and Disney+ originals. Disney has an impressive line-up of big budget movies slated to be released over the next 18 months, a number of which will appear on Disney+ simultaneously with their theatrical releases. Disney+'s upcoming slate includes *Cruella* (to be simultaneously released in theaters on May 28) followed by Pixar's *Luca*, (exclusively on Jun 18). Moreover, *Black Widow* and *Jungle Cruise* are scheduled to premiere on Jul 9 and 30, respectively (along with theaters). Moreover, Marvel's new series *Loki* is set for a Jun 9 debut on Disney+. The rapidly growing subscriber base strengthens Disney's position in the increasingly saturated streaming space currently dominated by Netflix.
- ▲ Disney's focus on sports streaming, particularly Live Sports, is expected to drive growth in the long haul. For instance, ESPN+ offers tournaments like UFC Lightweight Championship, Major League Baseball (MLB), National Hockey League (NHL), Major League Soccer, Grand Slam tennis, Italy's Serie A soccer and of live sporting events, original shows, series and documentaries. Markedly, the recently inked partnership with NHL allows Disney to stream 75 of the league's live national games exclusively on ESPN+ and Hulu. Also, ESPN+ will be the sole home for more than 1,000 out-of-market NHL games. Renewal of MLB sports rights deal through 2028 and agreement with Spanish club football's first division, La Liga, further strengthens Disney's sports content offerings. Disney also remains focused on offering content on linear television. In this respect, Disney and ESPN's recent long-term partnerships with National Football League (NFL) is noteworthy.
- ▲ Moreover, robust content portfolio continues to drive subscriber growth at Hulu. The service is benefiting from original content like *The United States vs. Billie Holiday*. Season four of *The Handmaid's Tale* also garnered significant attention. Hulu has a strong content pipeline that includes Marvel's new animated series, *M.O.D.O.K.*, season two of the hit series *Love, Victor*, and season 10 of the wildly popular anthology, *American Horror Story*. Moreover, launch of ESPN+ on Hulu is a key catalyst.

Impressive Disney+ user growth rate driven by expanding international footprint and solid content portfolio is a key catalyst. Moreover, solid lineup of big-budget movies are expected to drive growth.

Reasons To Sell:

- ▼ Coronavirus dealt a severe blow to Disney's top-line growth and profitability. Markedly, Disneyland Resort, Disneyland Paris and the company's cruise business were closed for all of the second quarter. Hong Kong Disneyland Resort was opened for roughly 30 days during the period. The company's re-opened parks and resorts operated at a lower capacity, thereby negatively impacting overall performance. The pandemic affected Disney's Parks, Experiences and Products' segmental operating income by \$1.2 billion in second-quarter fiscal 2021. The trend is expected to continue, which doesn't bode well for its results at least for the next couple of quarters.
- ▼ Moreover, theatrical distribution was hampered by coronavirus as theaters remain closed domestically and internationally. The Studio Entertainment business is expected to suffer delayed releases. Further, the timeline by which film and content production can resume is uncertain. Despite a healthy portfolio of new releases, the lack of visibility poses a challenge to Studio business.
- ▼ ESPN's profitability suffers from higher programming and production costs. In fact, for third-quarter fiscal 2021, Disney expects Linear Networks' operating income to decline year over year, primarily due to ESPN's higher sports programming and production costs. Despite resumption in sports events, we also believe ESPN's ad business will remain under pressure in fiscal 2021.
- ▼ Disney+ is facing significant competition in the streaming market from the likes of Netflix and Amazon Prime. Netflix enjoys a first-mover advantage in the streaming market and its solid original programming portfolio is a major differentiator. Amazon is also catching up. With the entrance of Apple TV+, as well as Comcast's Peacock and the merger of WarnerMedia with Discovery, the competition is likely to get stiffer. In fact, we believe Disney is significantly late to the streaming market and thus have to spend a significant amount to attract subscribers.
- ▼ Disney has a leveraged balance sheet. Total borrowings were \$56.15 billion as of Apr 3, 2021 compared with \$58.28 billion as of Jan 2, 2021. Disney's debt balance compares unfavorably with cash, cash equivalents and its current marketable investment securities balance of \$15.89 billion.

Adverse impact of coronavirus on major businesses, higher programming costs at ESPN, heavy investments in ESPN+ and Disney+, and closure of cruise business are factors hampering growth.

Last Earnings Report

Disney Q2 Earnings Beat, Coronavirus Hits Top-line Growth

Disney reported second-quarter fiscal 2021 adjusted earnings of 79 cents per share that beat the Zacks Consensus Estimate by 172.4% and increased 31.7% year over year.

However, revenues decreased 13.4% from the year-ago quarter to \$15.61 billion and lagged the consensus mark by 2.6%.

Segment Details

Media and Entertainment Distribution (79.7% of revenues) revenues climbed 0.6% year over year to \$12.44 billion.

Revenues from Linear Networks decreased 4% year over year to \$6.75 billion. Direct-to-Consumer revenues surged 59% year over year to \$4 billion. Content Sales/Licensing and Other revenues declined 36.4% year over year to \$1.92 billion.

Parks, Experiences and Products revenues (20.3% of revenues) plunged 43.9% year over year to \$3.17 billion.

Domestic and International revenues declined 58.1% and 45.4% year over year, respectively, to \$1.74 billion and \$262 million in the reported quarter.

However, revenues from Consumer Products increased 13% year over year to \$1.18 billion.

Markedly, Disneyland Resort, Disneyland Paris and the company's cruise business were closed for all of the second quarter. Hong Kong Disneyland Resort was opened for roughly 30 days during the period. Both Walt Disney World Resort and Shanghai Disney Resort were open throughout the reported quarter.

Subscriber Details

ESPN+ had 13.8 million paid subscribers at the end of the fiscal second quarter compared with 7.9 million at the end of the year-ago quarter.

Disney+, as of Apr 3, 2021, had 103.6 million paid subscribers compared with 33.5 million as of Mar 28, 2020. The company remains on track to achieve its prior guidance of 230-260 million paid subscribers by the end of fiscal 2024.

The rapidly growing subscriber base strengthens Disney's position in the increasingly saturated streaming space currently dominated by Netflix. The launch of new services from Apple, Comcast and AT&T has further intensified competition.

Disney+'s upcoming slate includes Cruella (simultaneously to be released in theaters on May 28) followed by Pixar's Luca, (exclusively on Jun 18). Moreover, Black Widow and Jungle Cruise are scheduled to premiere on Jul 9 and 30, respectively (along with theaters). Moreover, Marvel's new series Loki is set for a Jun 9 debut on Disney+.

Hulu ended the quarter with 41.6 million paid subscribers, up 30% year over year.

The average monthly revenue per paid subscriber for ESPN+ increased 7% year over year to \$4.55 due to an increase in retail pricing.

The average monthly revenue per paid subscriber for Disney+ was \$3.99, down 29% year over year. Moreover, the average monthly revenue per paid subscriber for Disney's Hulu SVOD-only service was unchanged at \$12.08.

The average monthly revenue per paid subscriber for Disney's Hulu Live TV + SVOD service rose 21% from the year-ago quarter to \$81.83, owing to higher advertising revenues per subscriber, increase in retail pricing and per-subscriber premium as well as feature add-on revenues.

Operating Details

Costs & expenses declined 15% year over year to \$14.17 billion in the reported quarter.

Segmental operating income increased 2.4% year over year to \$2.47 billion.

Media and Entertainment Distribution segmental operating income surged 73.9% year over year to \$2.87 billion.

Linear Networks operating income increased 14.8% to \$2.85 billion. Moreover, Direct-to-Consumer operating loss was \$290 million compared with the year-ago quarter's loss of \$805 million.

Content Sales/Licensing and Other operating income was \$312 million against operating loss of \$25 million reported in the year-ago quarter.

Parks, Experiences and Products operating loss was \$406 million against the year-ago quarter's operating income of \$756 million. COVID-19

Quarter Ending	03/2021
Report Date	May 13, 2021
Sales Surprise	-2.55%
EPS Surprise	172.41%
Quarterly EPS	0.79
Annual EPS (TTM)	0.99

hurt the segment's profits by roughly \$1.2 billion.

Domestic and International segments reported losses of \$587 million and \$380 million, respectively. Markedly, Domestic had reported profit of \$661 million in the year-ago quarter, while International had reported a loss of \$343 million.

Consumer Products' operating profit increased 28.1% year over year to \$561 million.

Further, interest expenses increased 6.7% year over year to \$320 million.

Balance Sheet

As of Apr 3, 2021, cash and cash equivalents were \$15.89 billion compared with \$17.07 billion as of Jan 2, 2021.

Total borrowings were \$56.15 billion as of Apr 3, 2021 compared with \$58.28 billion as of Jan 2, 2021.

Free cash flow was \$623 million in the reported quarter compared with free cash outflow of \$685 million in the previous quarter.

Outlook

For third-quarter fiscal 2021, Disney expects Linear Networks operating income to decline year over year primarily due to higher sports programming and production costs at ESPN. The company expects this cost to increase by \$1.2 billion year over year.

Disney+ now expects fewer net subscriber addition for its direct-to-consumer services in the second half of 2021. Moreover, the company now plans to launch STAR+, its stand-alone general entertainment and sports streaming service for Latin America, on Aug 31.

Recent News

On May 14, Disney announced that Star+ will launch in Latin America on Aug 31. The standalone streaming service will offer a full slate of ESPN content, series, animated comedies, movies, documentaries as well as regional and international original Star productions, including exclusive content.

On Apr 21, Disney and Sony Pictures announced a multi-year content licensing agreement for U.S. streaming and TV rights to Sony Pictures' new theatrical releases across the former's streaming services Disney+ and Hulu, as well as linear entertainment networks including ABC, Disney Channels, Freeform, FX and National Geographic. The deal covers theatrical releases from 2022-2026 and begins for each film following its Pay 1 TV window.

On Mar 26, Disney announced the company, its division ESPN and the National Football League (NFL) have inked a wide-ranging, 10-year agreement that will result in ABC/ESPN joining the Super Bowl rotation beginning 2023 season.

On Mar 17, Disney CEO said in an interview with CNBC that the company is set to reopen its two California theme parks on Apr 30.

On Mar 10, Disney announced that the company, its division ESPN and the National Hockey League have inked a seven-year television, streaming and media rights deal. The new partnership begins with the 2021-22 season through the 2027-28 season. Per the agreement, ABC will have the exclusive coverage of the Stanley Cup Final in four out of the seven seasons.

Valuation

Disney shares are down 1.5% in the year-to-date period but up 60% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 23.8% while the same in the Zacks Consumer Discretionary sector are up 2.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 60.2% and 38%, respectively.

The S&P 500 index is up 14.8% in the year-to-date period and 42.4% in the past year.

The stock is currently trading at 41.07X forward 12-month earnings, which compares to 41.07X for the Zacks sub-industry, 26.98X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 76.25X and as low as 13.4X, with a 5-year median of 17.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$187 price target reflects 43.12X forward 12-month earnings.

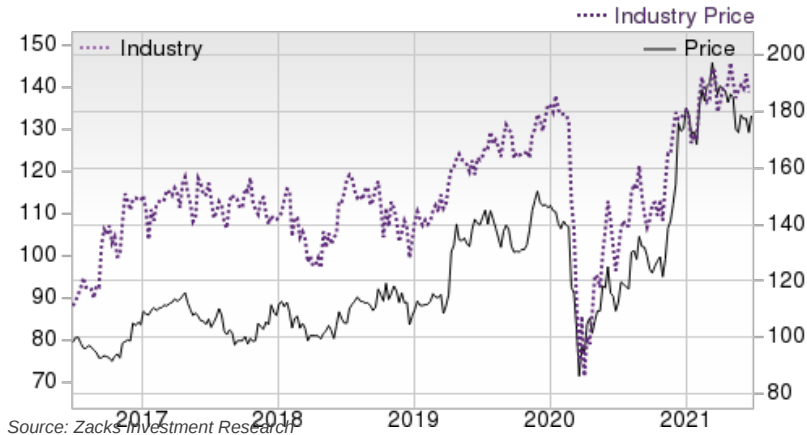
The table below shows summary valuation data for DIS

Valuation Multiples - DIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.07	41.07	26.98	21.82
	5-Year High	76.25	70.64	31.88	23.83
	5-Year Low	13.4	12.9	14.49	15.31
	5-Year Median	17.52	18.59	18.09	18.05
P/B TTM	Current	3.61	2.02	4.79	7.12
	5-Year High	4.13	3.38	6.32	7.12
	5-Year Low	1.63	0.98	2.93	3.84
	5-Year Median	3.21	2.03	4.88	5.02
EV/EBITDA TTM	Current	31.90	19.54	17.4	17.59
	5-Year High	34.15	29.04	20.68	17.74
	5-Year Low	9.7	6.37	9.43	9.63
	5-Year Median	12.41	12.94	14.17	13.48

As of 06/27/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Outperform	2
Amazon.com, Inc. (AMZN)	Outperform	3
Cable One, Inc. (CABO)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
DISH Network Corporation (DISH)	Neutral	3
Lions Gate Entertainment Corp. (LGF.A)	Neutral	3
Netflix, Inc. (NFLX)	Neutral	3
AT&T Inc. (T)	Neutral	3

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

Industry Comparison Industry: Media Conglomerates				Industry Peers		
	DIS	X Industry	S&P 500	AAPL	CMCSA	NFLX
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	A	B
Market Cap	324.05 B	10.19 B	30.37 B	2,221.29 B	258.44 B	233.70 B
# of Analysts	14	2	12	11	16	22
Dividend Yield	0.00%	0.00%	1.33%	0.66%	1.77%	0.00%
Value Score	D	-	-	D	B	D
Cash/Price	0.05	0.21	0.06	0.03	0.06	0.04
EV/EBITDA	35.74	61.16	17.25	28.92	10.95	16.13
PEG F1	13.69	3.01	2.09	2.06	1.33	1.55
P/B	3.61	1.19	4.15	32.11	2.75	18.14
P/CF	22.99	20.91	17.53	33.05	10.27	17.06
P/E F1	76.91	46.15	21.20	25.70	18.85	50.56
P/S TTM	5.55	7.88	3.42	6.83	2.48	8.86
Earnings Yield	1.28%	1.72%	4.61%	3.89%	5.30%	1.98%
Debt/Equity	0.57	0.74	0.66	1.57	1.11	1.15
Cash Flow (\$/share)	7.76	2.10	6.86	4.03	5.49	30.90
Growth Score	B	-	-	B	B	A
Historical EPS Growth (3-5 Years)	-24.36%	-24.36%	9.59%	14.59%	13.95%	95.10%
Projected EPS Growth (F1/F0)	12.73%	46.17%	21.79%	57.90%	14.70%	71.46%
Current Cash Flow Growth	-1.67%	-35.07%	1.02%	0.98%	-8.10%	22.32%
Historical Cash Flow Growth (3-5 Years)	4.66%	2.71%	7.28%	1.15%	8.34%	30.02%
Current Ratio	1.23	1.08	1.39	1.14	0.96	1.27
Debt/Capital	40.18%	44.42%	41.51%	61.10%	52.65%	53.56%
Net Margin	-7.73%	-23.25%	12.06%	23.45%	11.25%	14.24%
Return on Equity	2.07%	-1.46%	16.59%	111.80%	13.75%	34.47%
Sales/Assets	0.29	0.03	0.51	0.98	0.38	0.68
Projected Sales Growth (F1/F0)	3.44%	7.99%	9.56%	29.66%	9.02%	18.84%
Momentum Score	C	-	-	A	A	B
Daily Price Change	0.24%	0.91%	0.33%	-0.22%	0.64%	1.74%
1-Week Price Change	3.44%	6.11%	2.74%	2.03%	-0.51%	5.25%
4-Week Price Change	-0.17%	0.49%	1.82%	6.82%	-1.60%	4.82%
12-Week Price Change	-5.62%	1.93%	6.49%	8.22%	3.05%	-2.29%
52-Week Price Change	63.47%	61.01%	42.26%	50.56%	45.98%	18.87%
20-Day Average Volume (Shares)	7,135,721	456,016	1,881,795	70,833,072	14,297,184	3,532,617
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.11%	0.13%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	-8.03%	0.02%	1.47%	0.13%	0.00%
EPS F1 Estimate 12-Week Change	9.19%	-4.00%	3.59%	15.60%	5.69%	6.30%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	-27.27%	0.00%	2.38%	0.22%	0.00%
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Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.