

Energizer Holdings (ENR)

\$44.15 (As of 06/07/21)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

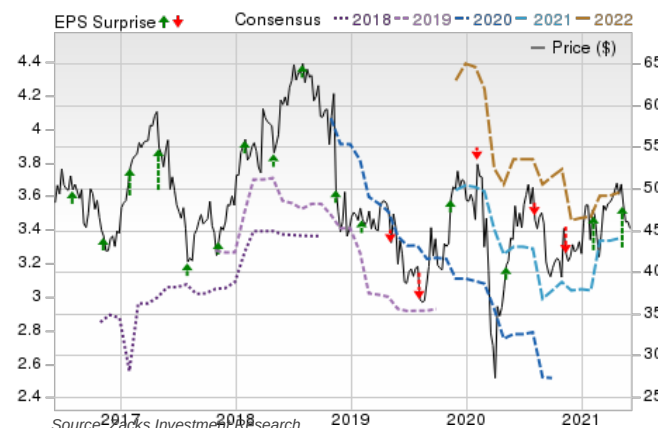
Growth: D

Momentum: B

Summary

Shares of Energizer have outperformed the industry in the past six months. The company is witnessing consistent growth in its auto care and batteries businesses, which aided second-quarter fiscal 2021 performance. Also, distribution gains at all product categories and higher volumes boosted organic sales. Notably, it witnessed strong consumer demand across the categories. Moving on, management is focused on driving the top line and margins in addition to achieving operational efficiency. For fiscal 2021, management now expects a revenue rise between 5% and 7%, aided by distribution profits, solid battery demand and favorable currency impacts. However, steep operating expenses including pandemic-related costs are a challenge to the company. Additionally, management expects inflationary headwinds for the rest of fiscal 2021 and next fiscal year.

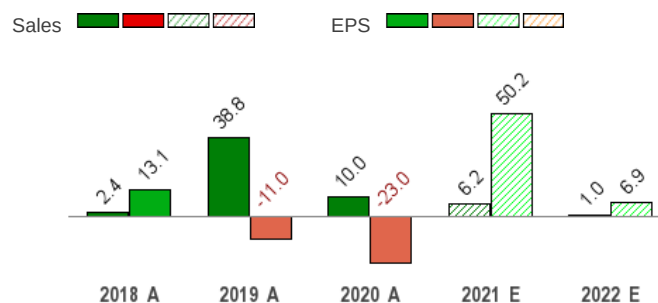
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$53.19 - \$38.59
20-Day Average Volume (Shares)	508,687
Market Cap	\$3.0 B
Year-To-Date Price Change	4.7%
Beta	1.23
Dividend / Dividend Yield	\$1.20 / 2.7%
Industry	Consumer Products - Staples
Zacks Industry Rank	Bottom 14% (215 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	42.6%
Last Sales Surprise	11.2%
EPS F1 Estimate 4-Week Change	2.9%
Expected Report Date	08/04/2021
Earnings ESP	-1.9%
P/E TTM	14.6
P/E F1	12.7
PEG F1	3.7
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	794 E	653 E	650 E	757 E	2,942 E
2021	849 A	685 A	651 E	739 E	2,914 E
2020	737 A	587 A	658 A	763 A	2,745 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.14 E	\$0.77 E	\$0.81 E	\$1.03 E	\$3.71 E
2021	\$1.17 A	\$0.77 A	\$0.66 E	\$0.85 E	\$3.47 E
2020	\$0.85 A	\$0.37 A	\$0.50 A	\$0.59 A	\$2.31 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 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

Overview

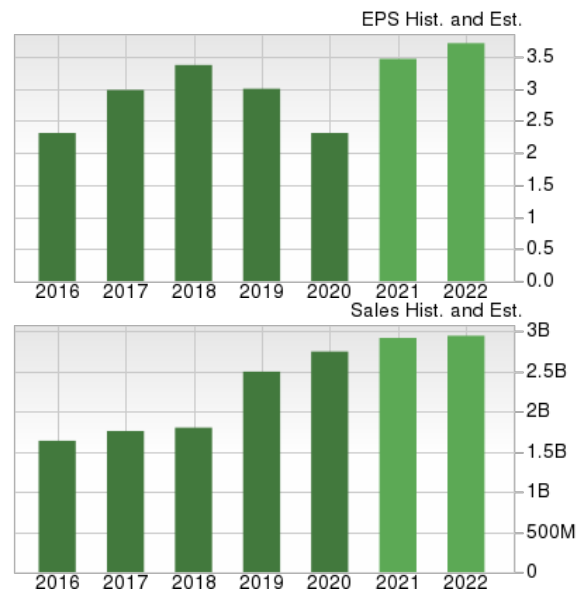
Headquartered in St. Louis, MO, Energizer Holdings Inc. is one of the largest manufacturers and marketers of batteries, lighting and auto-care products. The company's products are marketed and sold globally through direct sales personnel, mass merchandisers, distributors and wholesalers. Energizer, which generated \$2,744.8 million revenues in fiscal 2020, operates under three segments namely:

Batteries segment (76.5% of FY20 revenues): The company's battery business produces alkaline, lithium, carbon-zinc, nickel metal hydride, zinc air, silver oxide and rechargeable batteries. Energizer's lithium batteries are manufactured for non-consumer industrial applications and are used in cameras, camcorders, memory backup, CD players and portable computers.

Auto care segment (18.7% of FY20 revenues): The company offers auto care products in the appearance, fragrance, performance and air conditioning recharge product categories. The appearance and fragrance categories include protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners and washes designed to clean, shine, refresh and protect interior and exterior automobile surfaces under the brand names such as Armor All, Nu Finish, Refresh Your Car!, LEXOL, Eagle One, California Scents, Driven and Bahama & Co.

Lights and Licensing segment (4.8% of FY20 revenues): The company manufactures, distributes, and markets lighting products including headlights, lanterns, children's lights and area lights. Apart from the Energizer, Eveready and Rayovac brands, the company markets flashlights under the Hard Case, Dolphin, and WeatherReady sub-brands. In addition to batteries and portable lights, Energizer licenses the Energizer and Eveready brands to companies developing consumer solutions in gaming, automotive batteries, portable power for critical devices, generators, power tools, household light bulbs and other lighting products.

Energizer generated 71.8% of its revenues from Americas in fiscal 2020, while it reported 28.2% from international operations. The company derives a significant amount of revenues from a relatively small number of retail customers. In fiscal 2019, Wal-Mart Stores and its subsidiaries accounted for approximately 14.1% of Energizer's sales.



Reasons To Buy:

▲ **Robust Q2 Results:** Energizer posted sturdy second-quarter fiscal 2021 results with the top and the bottom line increasing year over year and also surpassing the Zacks Consensus Estimate. Results benefited from growth across the company's segments resulting from favorable consumer demand. In fact, the company delivered a robust performance at all categories and geographies. While the bottom line gained from higher organic sales, synergy realization, favorable currency and reduced interest expense, the top line was buoyed by strong demand for batteries and auto across both geographical segments. Notably, the company witnessed strong consumer demand across the categories. Moving on, management is focused on boosting the top line and margins in addition to achieving operational excellence. Markedly, shares of the company have increased 2.8% in the past six months against the industry's decline of 3%.

Energizer is steadily gaining from growth in batteries and auto care businesses. For fiscal 2021, the company expects net sales to grow in the 5-9% range year over year.

▲ **Outlook:** Based on a stellar first-half performance, management updated its fiscal 2021 view. Solid demand for the company's brands and products coupled with better cost control helped management raise the outlook for adjusted earnings per share and adjusted EBITDA. In connection with auto care, the company witnessed higher demand in the beginning of May. For fiscal 2021, management now expects revenues to grow between 5% and 7%, driven by distribution gains, higher battery demand and favorable currency impacts. Earlier, the metric was projected to come in at the upper end of 2-4%. We note that synergies and the favorable currency impacts are likely to mitigate the inflationary cost pressures and mix shifts.

Further, it expects adjusted EBITDA in the bracket of \$620 to \$640 million for the fiscal year. It had previously expected adjusted EBITDA to meet the higher end of \$600-\$630 million. Adjusted earnings per share are now envisioned to be \$3.30-\$3.50 compared with the earlier projection of \$3.10-\$3.40. We note that the company delivered earnings per share of \$2.31 in fiscal 2020.

▲ **Focus on Productivity:** Energizer is making efforts to drive productivity via improvement initiatives, streamlining international organization and optimizing manufacturing footprint. The company distributes its products to consumers via various retail locations globally, comprising mass merchandisers and warehouse clubs, food, drug and convenience stores, electronics specialty stores and department stores, hardware and automotive centers, e-commerce and military stores. Further, the company has been focused on containing costs and enhancing cash flow from operations. Moreover, last year, Energizer completed the sale of its Europe-based Varta consumer battery business to Germany-based VARTA Aktiengesellschaft (VARTA AG). The \$2-billion battery business operates in Europe, the Middle East and Africa.

Also, the company is planning to accelerate its integration efforts to drive performance across businesses. The company is on track to generate synergies of above \$120 million by the end of fiscal 2021, which will be reinvested to improve top line through innovation and brand building activities. The company realized synergies worth \$14.2 million during the second quarter of fiscal 2021. In fiscal 2020, the company delivered synergies worth \$51 million. Going forward, management anticipates these synergies to drive the bottom line. Apart from these, management's dedicated endeavors towards brand-building, expansion of distribution networks, boosting efficiency across supply chain and prudent partnerships with suppliers have been aiding brand growth.

▲ **Acquisitions – A Key to Growth:** Buyouts are integral to Energizer's growth strategy. During the first quarter of fiscal 2021, management inked a deal with Green Global Holdings, LLC to purchase a North Carolina-based company. It focuses on specialization in developing formulations for cleaning tasks (Formulations Acquisition). On Dec 1, 2020, it concluded the Formulations Acquisition in a cash deal worth of \$51.2, subject to post-closing working capital adjustments. Notably, this integration enables the company to add key innovation capabilities to formulations. In the fourth quarter of fiscal 2020, Energizer entered into an agreement with FDK Corporation to purchase its subsidiary PT FDK Indonesia, a battery-manufacturing facility (FDK Indonesia Acquisition). On Oct 1, 2020, it culminated the buyout of the FDK Indonesia facility, which aims at increasing the buyer's alkaline battery production capacity. On Jan 31, 2020, the company agreed to take over Custom Accessories Europe Group International Limited (CAE) for a cash price of \$1.9. Markedly, CAE is a renowned marketer of branded automotive accessories across the United Kingdom and Europe. The strength of these brands along with the company's existing Lexol and Eagle One products is likely to aid in building its auto care business, both organically and through acquisitions.

▲ **Acquired Battery Business, a Brighter Prospect:** Energizer's acquisition of Spectrum 8Brands' Global Battery and Portable Lighting Business (announced in January 2018) as well as the auto care business is touted to serve as one of the main drivers for EBITDA growth in the next few years. The acquisition has not only been helping in enhancing international footprint and broadening manufacturing capabilities, but also bringing synergies of accelerated innovation and wider product range, alongside cost efficiencies to compete in the category. The acquired battery business will help it to boost efficiencies, contain cost and improve relationship with retail customers. This expanded portfolio of brands and products puts the company in a leadership position in the Battery and auto care categories. In second-quarter fiscal 2021, its battery business (which accounted for 74.9% of total revenues) increased 19.9% year over year to \$512.8 million. Also, revenues at the Auto Care segment grew 6.7% to \$138.9 million. Management had earlier stated that all major initiatives related to the integration of acquisitions in the company's battery and auto care businesses are underway and are likely to be completed by the end of fiscal 2021.

▲ **Shareholder-Friendly Moves:** Energizer has been actively managing its capital and returning much of its free cash via share repurchases and dividends. The company has been making regular quarterly dividend payouts. Also, the company is on track with share repurchases. During the second quarter of fiscal 2021, the company paid out dividends worth \$20.6 million on common stock and \$4.1 million of mandatory preferred convertible stock. Notably, Energizer has a dividend payout of 47.8%, dividend yield of 2.8% and free cash flow yield of 1.17%. With an annual free cash flow return on investment of 8.9%, the dividend payment is likely to be sustainable. During the first six months of fiscal 2021, the company repurchased approximately 500,000 shares of common stock worth \$21.3 million.

Reasons To Sell:

- ▼ **High Costs Are a Worry:** During second-quarter fiscal 2021, the company's bottom-line growth was partly offset by increased selling, general and administrative (SG&A) expenses and advertising and promotion costs, both on a dollar basis. We note that SG&A expenses rose 6.6% year over year in the reported quarter, mainly due to increased overhead in relation to top-line growth. In addition, rising costs associated with the coronavirus pandemic were a hurdle for the company. Moreover, steep operating expenses stemming from elevated tariffs in relation to source product to serve robust demand, labor, transportation and product input expense, all consistent with the inflationary trends across the global market are persistently hurting margins. A consistent rise in such expenses is likely to put pressure on the company's profitability in the forthcoming periods.
- ▼ **Near-Term Headwinds:** On second-quarter earnings call, management stated that it began lapping the pandemic-elevated demand levels for batteries late in the reported quarter. For the fiscal third and fourth quarters, management expects a fall in both batteries and auto care categories from the respective year-ago reported levels as the company approaches more normalcy. In addition, the company anticipates inflationary headwinds over the rest of the full fiscal and into the next fiscal year.
- ▼ **Debt Analysis:** Energizer's long-term debt of \$3,352.2 million at the end of the second quarter of fiscal 2021 reflected an increase of 0.2%, sequentially. Moreover, its debt-to-capitalization ratio of 0.91 is quite higher than the industry's ratio of 0.58. Moreover, the company's debt load appears too high to be managed by the company's cash and cash equivalents of \$261 million as of Dec 31, 2020. Moreover, the same shows a 14.6% decline from the end of the preceding quarter.
- ▼ **Stiff Competition:** The company is exposed to stiff competition from its peers on the grounds of product quality and price, innovation, promotion strategies and customer service. Further, the consumer staples industry is exposed to intense competition of late, particularly in the U.S. market.
- ▼ **Risk related to Global Economic Conditions:** Any sluggishness in the economy may lower the demand for products. A slowdown in the economy compels consumers to either curtail discretionary spending or shift purchasing patterns to lower cost options. This shift has the potential to drive the market toward lower margin products or force the company to reduce prices for their products in order to be more competitive. This is likely to show on the company's top and bottom lines. In addition, disruptions in financial markets also reduce access to debt and equity capital markets, negatively affecting its ability to implement business strategy.

During second-quarter fiscal 2021, higher selling, general and administrative expenses as well as advertising and promotion costs, both on a dollar basis, partly hurt bottom-line growth.

Last Earnings Report

Energizer Q2 Earnings & Sales Beat Estimates, Rise Y/Y

Energizer posted sturdy second-quarter fiscal 2021 results, with the top and the bottom line increasing year on year and surpassing the Zacks Consensus Estimate. Results benefitted from growth across the company's segments, resulting from favorable consumer demand. The company delivered robust performance at all categories and geographies.

Adjusted earnings came in at 77 cents per share, which surpassed the Zacks Consensus Estimate of 54 cents and grew more than doubled from the year-ago quarter's figure of 37 cents.

The bottom line gained from growth in organic sales, synergy realization, favorable currency and reduced interest expense. The upsides were slightly offset by increased selling, general and administrative (SG&A) expenses and advertising and promotion (A&P) costs, both on a dollar basis.

The company reported net sales of \$685.1 million, which beat the Zacks Consensus Estimate of \$615.9 million. Also, sales rose 16.7% on a year-over-year basis, buoyed by strong demand for batteries and auto across both the geographical segments. Moreover, organic sales increased 12.7% to \$74.7 million in the quarter under review.

Segments in Details

Batteries segment revenues increased 19.9% year over year to \$512.8 million, while revenues in the Auto Care segment rose 6.7% to \$138.9 million. Revenues in the Lights, Licensing and Other segment rose 14.8% to \$33.4 million.

In the Americas, the company recorded revenues of \$482 million, up 17.6% from the year-ago quarter's figure. Revenues in the International segment amounted to \$203.1 million, up 14.7% from the year-ago quarter's levels.

Margins

Energizer's adjusted gross margin contracted 110 basis points (bps) to 40.5% owing to increased operating costs. Higher operating expenses stemmed from elevated tariffs related to source product to serve robust demand, labor, transportation and product input expense, all consistent with the inflationary trends across the global market. Further, management stated that it incurred synergies worth \$14.2 million and witnessed impacts of favorable currency.

Adjusted SG&A expenses, excluding acquisition and integration costs, as a percentage of sales, amounted to 16.7%. The figure declined 170 bps from the year-ago quarter's level of 18.4%, driven by synergy realization, greater sales and lower spending resulting partly from travel restrictions. Further, A&P, as a percentage of sales, was flat year over year at 4%. Adjusted EBITDA came in at \$147.6 million, up 19.8% year over year owing to higher organic revenues and synergy realization.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$261 million, long-term debt of \$3,352.2 million and shareholders' equity of \$344.4 million.

Adjusted free cash flow from continuing operations was \$34.9 million at the end of the reported quarter. During the quarter, the company paid out dividends worth \$20.6 million on common stock and \$4.1 million of mandatory preferred convertible stock.

Outlook

Based on sturdy first-half performance, management updated its fiscal 2021 view. Robust demand for its brands and products coupled with better cost control helped management raise outlook for adjusted earnings per share and adjusted EBITDA.

The company began lapping the pandemic-elevated demand levels for batteries late in the reported quarter. In connection with the auto care, the company witnessed higher demand at the beginning of May. For the fiscal third and fourth quarters, management expects year-over-year fall in both the categories as it approaches greater normalized levels.

For fiscal 2021, management now expects revenues to grow between 5% and 7%, driven by distribution gains, higher battery demand and favorable currency impacts. Earlier, the metric was projected to come at the higher end of 2-4%. Adjusted gross margin is expected to remain essentially flat year over year. We note that synergies and the favorable currency impacts are likely to mitigate the inflationary cost pressures and mix shifts.

Further, it expects adjusted EBITDA in the bracket of \$620 to \$640 million for the fiscal year. It had previously guided adjusted EBITDA to come in at the higher end of \$600-\$630 million. Adjusted earnings per share are now envisioned to be 3.30 to \$3.50 versus the earlier projection of \$3.10-\$3.40.

Management anticipates debt refinancing to contribute to a \$30-million decline in the interest expense in fiscal 2021, of which \$8 million realized in the fiscal second quarter. Adjusted free cash flow is now estimated to come in at the low end of its earlier guidance of \$325-\$350 million.

Quarter Ending 03/2021

Report Date	May 10, 2021
Sales Surprise	11.23%
EPS Surprise	42.59%
Quarterly EPS	0.77
Annual EPS (TTM)	3.03

Recent News

Energizer Announces Dividend – May 3, 2021

Energizer declared a quarterly dividend of 30 cents per share, payable Jul 15, 2021 to shareholders of record as on May 24. It also announced a preferred dividend of \$1.875 per share, payable Jul 15, 2021 to shareholders of record as on Jul 1.

Valuation

Energizer shares are up 4.7% year to date while it is down 8.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 4.7% and 8.2%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.8% while the sector is up 20.6%.

The S&P 500 index is up 13.3% in the year-to-date period and 34% in the past year.

The stock is currently trading at 12.16X forward 12-month earnings, which compares to 23.73X for the Zacks sub-industry, 21.03X 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 21.83X and as low as 8.59X, with a 5-year median of 15.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 12.67X forward 12-month earnings.

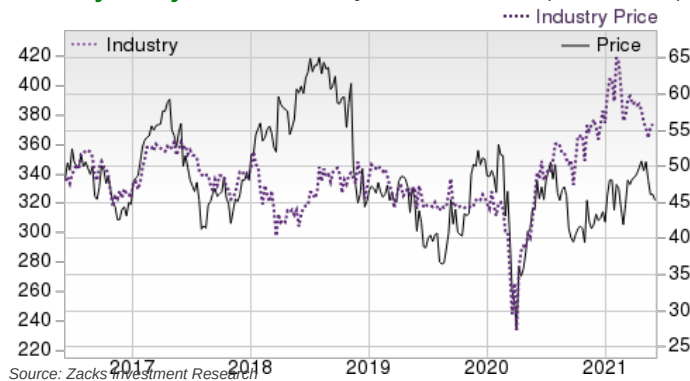
The table below shows summary valuation data for ENR

Valuation Multiples - ENR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.16	23.73	21.03	21.82
	5-Year High	21.83	24.95	22.4	23.83
	5-Year Low	8.59	13.32	16.51	15.31
	5-Year Median	15.18	18.11	19.5	18.05
P/S F12M	Current	1.03	0.95	10.55	4.72
	5-Year High	2.15	2.04	11.94	4.74
	5-Year Low	0.7	0.67	8.57	3.21
	5-Year Median	1.5	1.75	10.32	3.72
EV/EBITDA TTM	Current	8.64	10.76	43.1	17.34
	5-Year High	14.69	19.17	45.74	17.74
	5-Year Low	7.21	3.37	27.43	9.63
	5-Year Median	11.06	10.89	39.27	13.46

As of 06/07/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 14% (215 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
ColgatePalmolive Company (CL)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	3
Edgewell Personal Care Company (EPC)	Neutral	3
Prestige Consumer Healthcare Inc. (PBH)	Neutral	3
Procter & Gamble Company The (PG)	Neutral	3
Spectrum Brands Holdings Inc. (SPB)	Neutral	3
The Clorox Company (CLX)	Underperform	4
KimberlyClark Corporation (KMB)	Underperform	4

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

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	ENR	X Industry	S&P 500	CL	KMB	PBH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	B	A	C
Market Cap	3.02 B	3.02 B	30.32 B	70.98 B	44.23 B	2.49 B
# of Analysts	5	3.5	12	7	5	5
Dividend Yield	2.72%	0.00%	1.29%	2.15%	3.48%	0.00%
Value Score	A	-	-	C	B	B
Cash/Price	0.08	0.11	0.06	0.01	0.01	0.01
EV/EBITDA	16.31	12.94	17.33	17.83	12.94	12.27
PEG F1	3.67	2.23	2.13	4.26	3.54	3.46
P/B	8.76	4.05	4.17	107.05	59.29	1.83
P/CF	10.48	15.71	17.93	22.67	12.87	12.49
P/E F1	12.63	17.11	21.52	25.57	17.69	13.85
P/S TTM	1.02	1.42	3.52	4.25	2.34	2.64
Earnings Yield	7.86%	3.47%	4.55%	3.91%	5.65%	7.21%
Debt/Equity	9.73	0.39	0.66	11.42	10.12	1.09
Cash Flow (\$/share)	4.21	1.59	6.83	3.70	10.19	3.99
Growth Score	D	-	-	A	B	D
Historical EPS Growth (3-5 Years)	-0.00%	0.61%	9.44%	1.42%	6.08%	8.39%
Projected EPS Growth (F1/F0)	50.04%	5.57%	21.30%	7.24%	-4.29%	11.17%
Current Cash Flow Growth	-6.54%	7.73%	0.98%	7.20%	4.52%	8.15%
Historical Cash Flow Growth (3-5 Years)	5.67%	13.55%	7.28%	1.09%	3.84%	6.10%
Current Ratio	1.74	1.70	1.39	1.01	0.77	2.21
Debt/Capital	90.68%	33.35%	41.53%	91.95%	91.01%	52.25%
Net Margin	1.19%	2.97%	11.95%	15.92%	12.06%	17.46%
Return on Equity	66.10%	13.62%	16.36%	298.80%	376.18%	12.65%
Sales/Assets	0.57	1.03	0.51	1.07	1.12	0.27
Projected Sales Growth (F1/F0)	6.57%	12.36%	9.30%	6.17%	3.46%	1.72%
Momentum Score	B	-	-	C	A	B
Daily Price Change	-2.32%	1.09%	-0.33%	-0.08%	0.39%	-0.20%
1-Week Price Change	-1.82%	0.00%	0.58%	0.23%	-0.05%	0.26%
4-Week Price Change	-12.63%	3.68%	0.12%	0.67%	-4.25%	6.56%
12-Week Price Change	-9.92%	-1.18%	6.91%	10.86%	-2.36%	4.77%
52-Week Price Change	-9.03%	34.93%	29.97%	14.13%	-5.64%	18.47%
20-Day Average Volume (Shares)	508,687	644,929	1,799,698	3,691,768	2,560,497	226,599
EPS F1 Estimate 1-Week Change	-0.39%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.94%	0.00%	0.01%	0.00%	0.00%	0.33%
EPS F1 Estimate 12-Week Change	3.55%	1.70%	3.36%	-0.43%	-6.11%	5.32%
EPS Q1 Estimate Monthly Change	-7.04%	0.00%	0.00%	0.00%	0.00%	0.06%

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

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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