

## ETRADE Financial (ETFC)

**\$51.95** (As of 09/18/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

### Summary

Shares of E\*TRADE have outperformed the industry over the past six months. Also, the company has an impressive earnings surprise history, surpassing the Zacks Consensus Estimate in three of the trailing four quarters and missed in one. Continued improvement in daily average revenue trades (DARTs) on increased market volatility acts as a tailwind. Also, balance-sheet restructuring and strong liquidity position are positive factors. E\*TRADE faces less credit risk in case of any economic downturn. Yet, rising costs are a concern. Also, low rates might impede the company's revenue growth. Significant dependence on interest-based revenues streams and intense competition with other established companies keeps us app rehensive. Notably, in February, E\*TRADE entered into an all-stock acquisition deal, per which it will be acquired by Morgan Stanley.

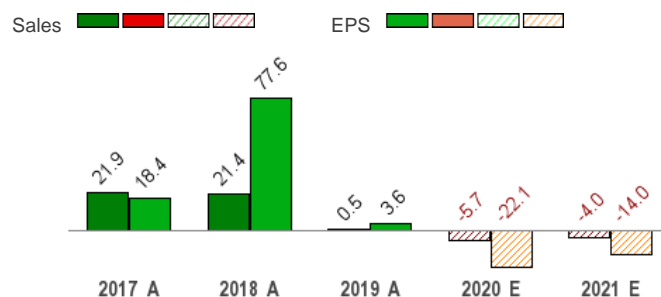
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$57.30 - \$25.76</b>
20-Day Average Volume (Shares)	<b>1,897,465</b>
Market Cap	<b>\$11.5 B</b>
Year-To-Date Price Change	<b>14.5%</b>
Beta	<b>1.24</b>
Dividend / Dividend Yield	<b>\$0.56 / 1.1%</b>
Industry	<b>Financial - Investment Bank</b>
Zacks Industry Rank	<b>Top 24% (61 out of 251)</b>

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



Last EPS Surprise	<b>17.3%</b>
Last Sales Surprise	<b>5.6%</b>
EPS F1 Estimate 4-Week Change	<b>1.6%</b>
Expected Report Date	<b>10/15/2020</b>
Earnings ESP	<b>1.7%</b>
P/E TTM	<b>14.4</b>
P/E F1	<b>16.6</b>
PEG F1	<b>1.5</b>
P/S TTM	<b>4.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	653 E	649 E	649 E	654 E	2,613 E
2020	707 A	716 A	675 E	640 E	2,722 E
2019	755 A	685 A	767 A	679 A	2,886 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.66 E	\$0.70 E	\$0.68 E	\$0.72 E	\$2.70 E
2020	\$0.82 A	\$0.88 A	\$0.72 E	\$0.75 E	\$3.14 E
2019	\$1.09 A	\$1.12 A	\$1.08 A	\$0.84 A	\$4.03 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 09/18/2020. The reports text is as of 09/21/2020.

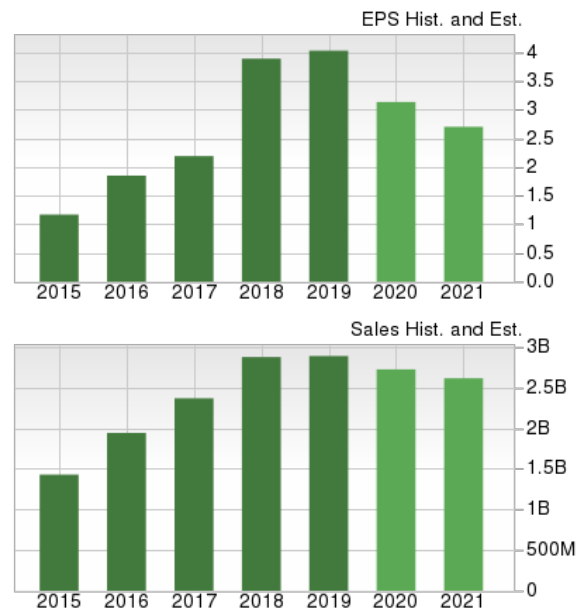
## Overview

Founded in 1982 in California and headquartered in New York, E\*TRADE Financial Corporation provides online brokerage and related products and services primarily to individual retail investors, under the brand name of "E\*TRADE Financial" worldwide. The company was reincorporated in Delaware in July 1996. Along with its subsidiaries, E\*TRADE offers various brokerage products and services including automated order placement and execution of the U.S., as well as international equities, currencies, futures, options, exchange-traded funds, mutual funds, and bonds. The banking products and services include checking, savings and clearing facilities, along with money market and certificates of deposit products. E\*TRADE operates worldwide, primarily in the U.S., Europe and Asia. The company provides these services to customers online through its network of customer service representatives, investment professionals, and investment advisors – over the phone and in person in all of its 30 E\*TRADE branches.

Previously, the company operated through two reporting segments – *Trading and Investing* and *Balance Sheet Management*. However, the company made several reporting changes in the first quarter of 2016 including consolidation of its reporting segments. Given that most of the company's legacy costs are behind it and balance sheet strength now depends on maximizing the value of customer deposits, management viewed that it was the right time to terminate the balance sheet management segment as well as the corporate category.

In January 2015, the company obtained regulatory approval for moving its two U.S. broker-dealers – E\*TRADE Clearing LLC and E\*TRADE Securities LLC – from under E\*TRADE Bank. E\*TRADE Securities and E\*TRADE Clearing were moved from under E\*TRADE Bank in February 2015 and July 2015, respectively. The reorganized structure will aid in simplification of distribution of capital generated by those entities to the parent.

In April 2018, E\*TRADE completed the Trust Company of America (TCA) acquisition deal, diversifying business and securing access to high growth Advisor service delivery model. Previously, in an effort to fortify its derivatives platform, the company completed the acquisition of online options broker — OptionsHouse — in September 2016.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ E\*TRADE, with the introduction of brokerage products and services and enhancement of capabilities on professional trading and mobile platforms, is focused on improving its technology space to offer a better digital experience to customers. The company's DARTs recorded a four-year compound annual growth rate (CAGR) of 21% in 2019, with the increasing trend continued in the first half of 2020. Notably, first-quarter 2020 marked the record total DARTs nearly double the previous peak, while derivative DARTs were more than 65% above the prior record as market volatility achieved new heights amid the coronavirus pandemic-related uncertainties.
- ▲ E\*TRADE continues to streamline its balance sheet risk by reducing credit risk in its legacy loan portfolios. Though the company's loan portfolio increased slightly in the first half of 2020, it reported a negative CAGR of 23.3%, over the last five years (2015-2019). We believe successful completion of the balance sheet restructuring will significantly strengthen the company's financials in the mid to long term.
- ▲ Driven by a solid capital position, E\*TRADE is now focused on returning capital to shareholders. In July 2019, it announced a new share-repurchase plan worth \$1.5 billion and initiated common stock dividend in October 2018. Notably, the company completed its previous \$1-billion authorization in third-quarter 2019 and made progress toward the current \$1.5-billion program. During February 2020, the company repurchased 2.1 million shares of common stock for a total of \$95 million prior to the suspension of share repurchases due to the proposed merger with Morgan Stanley. We believe, with strengthening of its overall performance, the company enhances shareholders' value with the commitment to return excess capital to them.
- ▲ E\*TRADE has seen improvement in its net interest margin (NIM) after witnessing a declining trend for years. It recorded NIM of 3.18%, 3.08%, 2.79%, 2.65%, 2.50% and 2.30% in 2019, 2018, 2017, 2016, 2015 and 2014, respectively. Though the Federal Reserve recently slashed interest rates to zero, which led to a fall in NIM in the first half of 2020, improvement in domestic economy might support margin.
- ▲ As of Jun 30, 2020, the company held a corporate debt level of \$1.41 billion and debt-capital ratio of 0.17 (compared with the industry average of 0.74). Both metrics remained volatile over the past few quarters. Therefore, with a time-interest-earned ratio of 13X-17X over the past few quarters which indicates the company's ability to meet its debt obligations based on current income and a record of consistent earnings, we believe E\*TRADE carries less credit risk and has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ Shares of E\*TRADE have outperformed the industry in the past three months. Moreover, the company's current-year earnings estimates have been revised 12.5% upward over the past 30 days. Therefore, given the robust fundamentals and positive estimate revisions, the stock has decent upside potential.

E\*TRADE remains well positioned for growth due to its online innovations and renewed focus on trading business. Further, strategic moves and steady capital-deployment activities are commendable.

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### Reasons To Sell:

- ▼ E\*TRADE's expanding cost base exposes the company to operational risks. Notably, non-interest expenses recorded a CAGR of 8.9% over the last four years (2015-2019), primarily due to rise in almost all the cost components. The uptrend continued in the first half of 2020 as well. Therefore, mounting expenses will likely be a near-time headwind as the company focuses on growing its franchise.
- ▼ E\*TRADE has to compete with many established and renowned players with greater financial, marketing and technical capabilities. Some of these competitors are in position to withstand the changing market conditions in a better way and can mould to take advantages of the opportunities. Also, these big peers can easily come out with better terms, conduct promotional activities and can offer better terms to entice customers. This intense competition can have adverse impact on the company's revenues and customer base.
- ▼ We remain apprehensive about E\*TRADE's significant dependence on interest-based revenue streams (net interest income constituted 55% of net revenues in the first half of 2020). Therefore, following the recent moves of Fed on rate cuts, the top line will likely be impacted.
- ▼ The stock seems overvalued when compared with the broader industry. Its price-earnings (F1) and price-to-book value ratios are above the respective industry averages.

Escalating expenses and significant dependence on interest-based revenue streams remain key concerns for E\*TRADE. Further, intense competition with other established companies keeps us apprehensive.

## Last Earnings Report

### E\*TRADE Q2 Earnings Beat Estimates, Revenues Up

E\*TRADE came up with an earnings surprise of 17.3% in second-quarter 2020 on record DARTs. Earnings of 88 cents per share outpaced the Zacks Consensus Estimate of 75 cents. The reported figure, however, compares unfavorably with the prior-year quarter's 90 cents.

The company's results reflect a rise in revenues on higher non-interest income. Improved DARTs owing to an upsurge in volatility on coronavirus concerns were a positive. In addition, rise in customer accounts and benefit provision during the period acted as tailwinds. However, escalating expenses and margin pressure on low rates were major drags.

Net income available to common shareholders came in at \$196 million compared with the \$219 million recorded in the year-ago quarter.

### Revenues Climb, Expenses Soar

Net revenues in the second quarter jumped 4.5% year over year to \$716 million on higher non-interest income, partly offset by lower net interest income. Also, the reported figure outpaced the Zacks Consensus Estimate of \$678 million.

Net interest income slipped 20.8% year over year to \$388 million in the quarter, primarily on lower interest income, partly negated by reduced interest expenses. Net interest margin was 2.56%, down 64 basis points from the 3.20% reported in the prior-year quarter.

Non-interest income was \$328 million, up 68.2% year over year. Elevated fees and service charges and higher gains on securities mainly led to this upside, muted by lower commissions and other revenues to some extent.

Total non-interest expenses escalated 13.8% year over year to \$453 million. This upswing chiefly resulted from rise in almost all components of expenses.

### Steady Trading Performance

Total DARTs more than doubled on a year-over-year basis to 1,009,956 during the June-end period, including 25% in derivatives. At the end of the quarter, E\*TRADE had 7.9 million customer accounts (including 5.8 million retail accounts), up 11% from the year-ago quarter.

Also, the company's total customer assets were \$781.8 billion, up 29% year over year. Brokerage-related cash increased 48% year over year to \$92.2 billion.

Notably, customers were net buyers of \$7.3 billion of securities compared with the net buyers of \$0.3 billion recorded in the prior-year quarter. Net new retail assets more than doubled to \$13.6 billion from the comparable period last year.

### Credit Quality

E\*TRADE's overall credit quality displayed a decent performance. Net recoveries were \$5 million during the April-June period compared with the \$9 million recorded as of Dec 31, 2019. Also, the company recorded benefit of \$1 million compared with the benefit of \$8 million witnessed in the year-earlier period.

### Balance Sheet and Capital Ratios

E\*TRADE's loan portfolio totaled \$1.61 billion at the end of the reported quarter, up from \$1.6 billion as of Dec 31, 2019.

As of Jun 30, 2020, E\*TRADE had total assets of \$70.4 billion compared with \$61.4 billion as of Dec 31, 2019.

The company's capital ratios remained strong. As of Jun 30, 2020, E\*TRADE reported Tier 1 risk-based capital ratio of 34.9% compared with the 40.4% witnessed in the year-ago quarter. Total risk-based capital ratio was 34.9%, down from the prior-year quarter's 40.7%. Tier 1 leverage ratio was 6.7%, in line with the year-earlier quarter.

Quarter Ending	06/2020
Report Date	Jul 23, 2020
Sales Surprise	5.60%
EPS Surprise	17.33%
Quarterly EPS	0.88
Annual EPS (TTM)	3.62

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## Recent News

### E\*TRADE Financial Witnesses Y/Y Rise in August DARTs - Sep 15, 2020

E\*TRADE has reported a rise in DARTs for August. According to its monthly-market activity, the company's DARTs came in at 1,037,532, up 2.4% from the previous month but more than 256% up on a year-over-year basis. Notably, derivatives comprised 28% of DARTs in the reported month.

### E\*TRADE Financial's July DARTs Solid, New Accounts Up Y/Y – Aug 14, 2020

E\*TRADE has reported a rise in DARTs for July. According to its monthly-market activity, the company's DARTs came in at 1,014,000, down 27.2% from the previous month but more than 200% up on a year-over-year basis. Notably, derivatives comprised 27% of DARTs in the reported month.

### E\*TRADE's Shareholders Approve Merger With Morgan Stanley – Jul 17, 2020

Shareholders of E\*TRADE have approved the merger agreement with Morgan Stanley. In the meeting, more than 99% of votes were cast in favor of the proposal. Completion of the acquisition is subject to additional customary closing conditions, including receipt of the remaining required regulatory approvals. The company expects the acquisition to close in the fourth quarter of 2020.

In February 2020, Morgan Stanley entered into an all-stock acquisition deal with E\*TRADE, per which the former will acquire the latter for \$13 billion. Post completion, Morgan Stanley will be well positioned as a leader in the Wealth Management industry across all channels and wealth segments, with significant increase in the scale and breadth of its franchise.

E\*TRADE's more-than 5.2-million client accounts and \$360 billion of retail client assets will augment Morgan Stanley's current 3-million client relationships and \$2.7 trillion of client assets. Thus, the combined entity will have client assets worth \$3.1 trillion, 8.2 million retail client relationships and accounts, and 4.6 million stock-plan participants.

Morgan Stanley will be able to serve clients with superior products and services catering the advisor-driven model, combined with E\*TRADE's direct-to-consumer and digital processes. Therefore, Morgan Stanley will be transitioned to a more balance-sheet light business mix, with strong and diversified revenue sources.

"E\*TRADE represents an extraordinary growth opportunity for our Wealth Management business and a leap forward in our Wealth Management strategy. The combination adds an iconic brand in the direct-to-consumer channel to our leading advisor-driven model, while also creating a premier Workplace Wealth provider for corporations and their employees. E\*TRADE's products, innovation in technology, and established brand will help position Morgan Stanley as a top player across all three channels: Financial Advisory, Self-Directed, and Workplace," said James Gorman, chairman and CEO of Morgan Stanley. "In addition, this continues the decade-long transition of our Firm to a more balance sheet light business mix, emphasizing more durable sources of revenue," Gorman further noted on this.

However, the deal awaits certain regulatory approvals and customary approvals by shareholders of E\*TRADE. The transaction is anticipated to close in the final quarter of 2020.

### Terms of the Deal

Per terms of the deal, each common shareholder of E\*TRADE will get stock equivalent to 1.0432 of Morgan Stanley shares for every E\*TRADE share held. This represents per share value of \$58.74 based on the closing price of Morgan Stanley common stock as on Feb 19, 2020.

Strategically, the combined entity will enhance through advanced technologies, innovative products and create a competitive edge with financial stability. Remarkably, on completion of the acquisition, online brokerage and digital banking services will enhance clients' experience.

Mike Pizzi, CEO of E\*TRADE, will join Morgan Stanley, looking after the E\*TRADE business within Morgan Stanley and head the ongoing integration process. Moreover, one of E\*TRADE's independent directors is likely to join Morgan Stanley's board.

### Financial Benefits

Catering huge funding benefits to Morgan Stanley, the deal comes with around \$56 billion of low-cost deposits. The acquisition move follows the bank's efforts to record revenues from balance-sheet light and more lasting sources of revenues. Notably, post integration, the combined wealth and investment management businesses are likely to contribute about 57% of the bank's pre-tax profits, excluding potential synergies, above the 26% recorded in 2010.

Post combination, significant cost savings worth \$400 million is expected with optimization of technology infrastructure and shared corporate services, along with funding synergies of \$150 million from E\*TRADE's around \$56 billion of deposits. In addition, \$7.3 trillion of combined current customer assets is likely to generate significant revenue opportunities.

Per Morgan Stanley, the acquisition is likely to be accretive once fully phased-in estimated cost and funding synergies are realized. Furthermore, the bank's common equity tier 1 ratio is estimated to expand by more than 30 basis points (bps) on closure and augment the bank's return on tangible common equity by more than 100 bps, with fully phased-in cost and funding synergies. Apart from this, Wealth Management's pre-tax profit margin is expected to be up more than 30%.

### Dividend Update

On Jul 23, E\*TRADE's board of directors announced a quarterly common stock cash dividend of 14 cents per share. The dividend was paid on

Aug 25, to shareholders on record as of Aug 19, 2020.

## Valuation

E\*TRADE's shares are up 14.5% in the year-to-date period and 15.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 11.2% and 17.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.1% and 12.2%, respectively.

The S&P 500 Index is up 3% and 11.3% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 18.41X forward 12 months earnings, which compared to 11.86X for the Zacks sub-industry, 16.04X for the Zacks sector and 21.85X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.6X and as low as 8.09X, with a 5-year median of 15.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 19.33X earnings per share.

The table below shows summary valuation data for ETFC

Valuation Multiples - ETFC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.41	11.86	16.04	21.85
	5-Year High	22.6	15.31	16.72	23.44
	5-Year Low	8.09	6.02	11.6	15.26
	5-Year Median	15.73	11.48	14.27	17.63
P/TB TTM	Current	3.58	1.93	3.3	14.98
	5-Year High	5.03	3.35	4	16.23
	5-Year Low	1.56	1.4	2.01	7.28
	5-Year Median	3.34	2.37	3.48	10.64
P/S F12M	Current	4.35	3.49	6.44	4.04
	5-Year High	5.85	4.54	6.67	4.29
	5-Year Low	2.62	2.76	4.97	3.11
	5-Year Median	4.2	3.55	6.07	3.66

As of 09/18/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 24% (61 out of 251)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Interactive Brokers Group, Inc. (IBKR)	Outperform	2
TD Ameritrade Holding Corporation (AMTD)	Neutral	3
Evercore Inc (EVR)	Neutral	3
LPL Financial Holdings Inc. (LPLA)	Neutral	3
Raymond James Financial, Inc. (RJF)	Neutral	3
The Charles Schwab Corporation (SCHW)	Neutral	4
Virtu Financial, Inc. (VIRT)	Neutral	2
WisdomTree Investments, Inc. (WETF)	Neutral	3

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

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	ETFC	X Industry	S&P 500	AMTD	RJF	SCHW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	D	D	F
Market Cap	11.49 B	775.07 M	23.70 B	21.07 B	10.01 B	46.43 B
# of Analysts	2	2	13	7	2	7
Dividend Yield	1.08%	0.00%	1.63%	3.18%	2.03%	2.00%
Value Score	D	-	-	D	C	F
Cash/Price	0.52	0.86	0.07	1.01	0.92	1.47
EV/EBITDA	4.59	2.42	13.12	1.17	2.28	-1.16
PEG F1	1.45	1.02	2.93	NA	NA	NA
P/B	1.87	1.68	3.26	2.20	1.43	1.82
P/CF	10.39	8.66	12.78	8.30	8.66	10.12
P/E F1	15.79	13.23	21.44	10.81	13.34	17.04
P/S TTM	4.00	1.51	2.49	3.56	1.23	4.47
Earnings Yield	6.03%	7.50%	4.44%	9.24%	7.50%	5.86%
Debt/Equity	0.23	0.31	0.70	0.39	0.47	0.33
Cash Flow (\$/share)	5.00	2.30	6.94	4.69	8.43	3.56
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	34.95%	20.42%	10.42%	30.77%	20.42%	28.06%
Projected EPS Growth (F1/F0)	-22.21%	-10.12%	-4.74%	-12.76%	-26.08%	-22.27%
Current Cash Flow Growth	-5.88%	-0.49%	5.29%	17.86%	13.40%	9.66%
Historical Cash Flow Growth (3-5 Years)	13.09%	12.22%	8.50%	21.50%	17.54%	22.65%
Current Ratio	0.30	1.21	1.35	1.11	1.03	0.30
Debt/Capital	17.15%	22.26%	42.92%	28.08%	32.18%	21.67%
Net Margin	28.69%	9.74%	10.26%	32.88%	10.75%	31.48%
Return on Equity	14.59%	12.32%	14.69%	22.51%	13.04%	15.86%
Sales/Assets	0.04	0.19	0.51	0.12	0.19	0.03
Projected Sales Growth (F1/F0)	-5.68%	0.00%	-1.42%	-4.11%	1.18%	-6.59%
Momentum Score	A	-	-	A	C	F
Daily Price Change	-0.17%	0.00%	-1.15%	0.72%	-1.06%	0.61%
1-Week Price Change	-4.20%	-2.09%	-1.90%	-2.48%	-3.93%	-2.65%
4-Week Price Change	-1.42%	-1.42%	0.06%	4.14%	-1.02%	4.28%
12-Week Price Change	3.36%	1.73%	7.27%	6.01%	4.14%	5.72%
52-Week Price Change	15.27%	-8.33%	0.33%	-21.55%	-14.31%	-16.05%
20-Day Average Volume (Shares)	1,897,465	49,403	1,916,343	3,054,165	632,840	7,482,235
EPS F1 Estimate 1-Week Change	1.61%	0.00%	0.00%	0.36%	0.00%	-0.87%
EPS F1 Estimate 4-Week Change	1.61%	0.00%	0.00%	0.36%	0.00%	-0.87%
EPS F1 Estimate 12-Week Change	12.66%	18.91%	4.12%	22.25%	18.91%	1.30%
EPS Q1 Estimate Monthly Change	0.85%	0.00%	0.00%	1.66%	0.00%	-1.62%

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

Value Score	D
Growth Score	F
Momentum Score	A
VGM Score	D

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

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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