

## Etsy, Inc. (ETSY)

**\$213.12** (As of 02/22/21)

Price Target (6-12 Months): **\$224.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

### Summary

Etsy is benefiting from accelerating Marketplace and Services revenues. Solid momentum across active sellers and buyers remains a major positive. Further, the coronavirus-induced e-commerce boom and increasing mask sales are tailwinds. Furthermore, the company is witnessing solid traction among reactivated buyers, which is contributing well. Also, enhancements in search and discovery are driving its momentum among buyers. Moreover, robust Etsy ad program is also aiding seller base growth. Additionally, positive contributions from the Reverb acquisition are other positives. Notably, the stock has outperformed its industry over a year. However, accelerating costs related to the shift to Offsite Ads and increasing marketing expenses are concerning. Further, intensifying e-commerce competition is a risk for Etsy's market position.

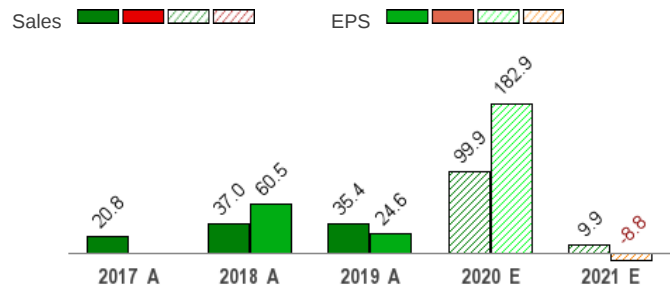
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$239.47 - \$29.95</b>          |
| 20-Day Average Volume (Shares) | <b>2,467,812</b>                   |
| Market Cap                     | <b>\$28.7 B</b>                    |
| Year-To-Date Price Change      | <b>27.7%</b>                       |
| Beta                           | <b>1.62</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Internet - Services</b>         |
| Zacks Industry Rank            | <b>Bottom 35% (164 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>12.9%</b>      |
| Last Sales Surprise           | <b>7.8%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.4%</b>       |
| Expected Report Date          | <b>02/25/2021</b> |
| Earnings ESP                  | <b>-14.3%</b>     |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 379 E | 417 E | 446 E | 554 E | 1,797 E |
| 2020 | 228 A | 429 A | 451 A | 517 E | 1,635 E |
| 2019 | 169 A | 181 A | 198 A | 270 A | 818 A   |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.41 E | \$0.45 E | \$0.47 E | \$0.55 E | \$1.96 E |
| 2020 | \$0.10 A | \$0.75 A | \$0.70 A | \$0.59 E | \$2.15 E |
| 2019 | \$0.24 A | \$0.14 A | \$0.12 A | \$0.25 A | \$0.76 A |

\*Quarterly figures may not add up to annual.

|         |              |
|---------|--------------|
| P/E TTM | <b>126.3</b> |
| P/E F1  | <b>108.7</b> |
| PEG F1  | <b>3.8</b>   |
| P/S TTM | <b>20.8</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/22/2021. The report's text and the analyst-provided price target are as of 02/23/2021.

## Overview

Brooklyn, NY-based Etsy is primarily an e-commerce service provider, which operates a two-sided marketplace platform called Etsy.com. The company completed Initial Public Offering (IPO) in 2015.

Etsy's core operational countries include the United States, the U.K., Canada, Germany, Australia and France.

Notably, Etsy reported revenues of \$818.4 million in 2019. Notably, the company generates revenues from marketplace activities and other optional services.

The company generated \$593.6 million worth marketplace revenues, which accounted for 72.5% of the total 2019 revenues. Further, it generated \$224.7 million of services revenues, which accounted for 27.5% of the total revenues.

It allows various merchants to list and sell their unique and creative products belonging to categories like homewares and home furnishings, jewelry and personal accessories, apparel, craft supplies, paper and party supplies, and beauty and personal care via its marketplace platform.

Further, this platform, which emerged as the cash cow of the company, enables merchants to manage products and inventory, process orders and payments, ship orders, and build customer relationships seamlessly.

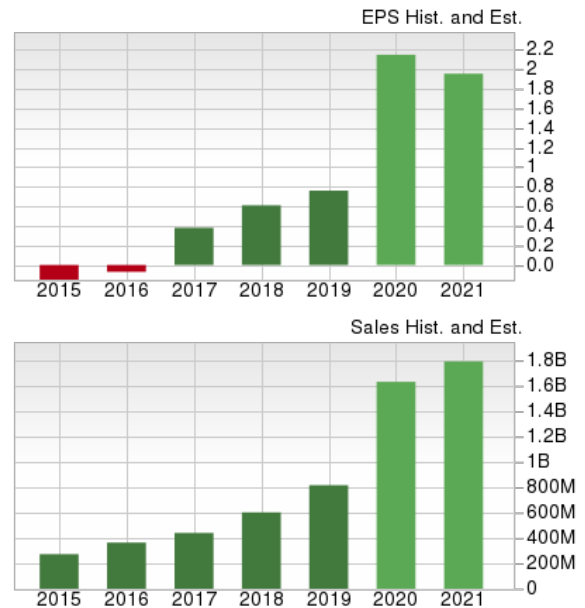
Further, the company's strong technology infrastructure helps it deliver robust buyer and seller experience, and analyze the huge volume of customer data to strengthen the performance of its marketplace platform.

Additionally, gross merchandise sales (GMS), which is the key growth metric of the company, is generated from the strengthening marketplace activities.

Further, the acquisition of Reverb, which offers a marketplace for musical instruments, has added strength to the company's marketplace business. Additionally, Etsy leverages machine learning algorithms in the search and discovery feature on the Etsy marketplace with the help of which it allows shoppers to browse easily, filter and purchase products.

Meanwhile, services revenues are generated from fees that sellers pay for the optional services on both Etsy and Reverb marketplace. Advertising services and Etsy Shipping Labels are optional services available to sellers on the Etsy marketplace.

Further, on-site advertising products namely Bump and Reverb Shipping Labels are optional services available on the Reverb platform.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Strong momentum across the Marketplace platform remains the key growth driver for Etsy. Unique products, global footprints, organic traffic base expansion efforts, connected experience across all devices, robust payment platform – Etsy Payments, free shipment and a strong focus on human interaction are bolstering customer engagement of the platform. More importantly, the company's initiative to deliver enhanced shopping experience, with the aid of personalized search experience, remains noteworthy. Moreover, its search and discovery capabilities are the key catalysts. Strengthening search capabilities and upgraded context-specific search ranking algorithms are anticipated to continue driving the performance of the Marketplace platform.
- ▲ The coronavirus pandemic has been favoring the global e-commerce industry significantly over the past few months primarily due to social distancing protocol, stay-at-home restriction and the rising fear of coming into contact with this highly contagious virus. Hence, this is strengthening online retail shopping worldwide. This very fact has been acting as a boon for Etsy as well. The firm has also sold millions of face masks on its e-commerce platform during the ongoing pandemic. In third-quarter 2020, the company generated \$264 million worth of GMV from mask sales, accounting for 11% of overall GMV. Also, its non-mask sales are rapidly growing, with solid momentum across homewares and home furnishings (top product category in the third quarter), jewelry and accessories, and craft supplies. We believe that the change in consumer preference and behavior toward online shopping will continue to drive Etsy's top-line growth.
- ▲ The company's strong efforts toward the proper execution of its key growth initiatives— search and discovery, customer liability, marketing, and seller tools and services—are major positives. Further, increasing product investments of the company, and personalization and customization of purchases continue to strengthen buyer activities on Etsy's e-commerce platform. Additionally, expanding the active seller base due to the company's strategy of using better merchandising techniques is a tailwind. Further, its increasing investments, seller shipping promotions, performance-marketing budget and strengthening customer services remain noteworthy. All these endeavors are expected to aid the performance of Etsy, which has witnessed consistent growth in revenues in the past few years. Notably, the company's revenues have registered a CAGR of 31.5% over the past four years.
- ▲ The acquisition of Reverb—a global two-sided online marketplace for buying and selling new, used, and vintage musical instruments—remains a positive. This buyout bodes well for Etsy's strong focus toward bolstering footprints in the United States as well as international regions such as Canada, the U.K., France, Germany and Australia. Further, Reverb's growing momentum among sellers is likely to continue contributing well to the company's top-line growth. Also, on-site product promotion and strong content-driven marketing strategy are constantly driving growth in the platform. We note that growing investment in marketing, customer engagement, and the development of seller tools and services are anticipated to aid the performance of Reverb's pricing model, which in turn will bring immense growth opportunities in the days ahead.
- ▲ Etsy has a strong balance sheet. As of Sep 30, 2020, the company's net cash amounted to \$469.9 million, which jumped from \$239.9 million as of Jun 30, 2020. The strong cash balance will not only help it pursue acquisitions but will also enable it to repurchase shares aggressively in the long haul. Further, debt-to-total capital was 61.3% as of Sep 30, 2020, which decreased from 61.9% as of Jun 30, 2020.

Etsy's growing momentum across marketplace platform, positive Reverb acquisition contributions and strong balance sheet remain the key growth drivers.

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## Reasons To Sell:

- ▼ Although Etsy is gaining strong momentum on its e-commerce capabilities, intensifying competition in the e-commerce marketplace remains a major concern for the company's market position. We note that Etsy is a substantially smaller company compared to online retail behemoths such as Amazon, eBay and Alibaba. Further, the company faces competition from the companies that allow merchants to list and sell goods by leveraging their social media networks such as Facebook. Additionally, Etsy, with its top-most product category —homewares and home furnishings —faces strong competition from Wayfair, which is the leader in the growing homes-goods market. Apart from this, Etsy competes with offline retailers.
- ▼ The e-commerce industry is currently being strictly scrutinized and facing frequent changes in laws and regulations. Increasing regulations related to customer data privacy, unfair trade practices, exploitation of small sellers, digital tax, anti-competition practices and processing of online payment transactions, which are being imposed by various governments worldwide including U.S. federal and state, and European Union, are major headwinds in the industry. Consequently, the regulations might impose extra compliance burdens and costs on a company like Etsy, which is relatively new and small. Moreover, these don't bode well for the company's domestic and international operations.
- ▼ We believe that increasing investments in product development, accelerating costs owing to the migration to cloud and free shipping initiative, and increasing marketing expenses might hurt the profitability of the company. At the end of 2019, both product development and marketing expenses witnessed a CAGR of 30% and 34% over the last four years, respectively. We also note that Etsy has an accumulated deficit of \$143.5 million as of Jun 30, 2020. Despite the improving top and bottom lines, deficit accumulation might dent investors' optimism.
- ▼ Most e-commerce businesses tend to be seasonal and Etsy is no different. The company's revenues get a huge boost from the holiday season each year. Notably, it generated 33% of its 2019 revenues in the fourth quarter. However, revenues drop significantly in the first quarter. First-quarter 2019 revenues of Etsy accounted for only 20.7% of the total 2019 revenues. The dependence on consumer spending makes the business lumpy, increasing the possibility of expectations going awry.
- ▼ The company is trading at premium in terms of Price/Book (P/B). Etsy currently has a trailing 12-month P/B ratio of 27.02X, which compares unfavorably with what the industry witnessed over the last year. Additionally, the ratio is higher than the average level of 17.24X and is near the high-end of the valuation range in this period. Hence, valuation looks slightly stretched from P/B perspective.

Intensifying competition in the e-commerce industry, escalating expenses, strict government regulations and seasonality remain major headwinds for Etsy.

## Last Earnings Report

### Etsy's Q3 Earnings & Revenues Beat Estimates

Etsy delivered third-quarter 2020 earnings of 70 per share, which surpassed the Zacks Consensus Estimate by 12.9%. Further, the figure significantly jumped from 12 cents in the year-ago quarter.

However, the bottom line declined 6.7% from the prior quarter.

Revenues advanced 128.1% year over year and 5.3% sequentially to \$451.5 million. The figure also outpaced the Zacks Consensus Estimate of \$419 million.

The top-line growth was driven by accelerating Marketplace and Services revenues. Moreover, solid momentum across both buyers and sellers contributed well. Additionally, strengthening gross merchandise sales ("GMS") were tailwinds.

Further, the coronavirus pandemic-induced e-commerce boom continued to act as a major tailwind for the company. It experienced a rising number of new buyers and strengthening mask sales during the reported quarter.

Furthermore, benefits from the Reverb acquisition contributed well to the company's third-quarter results.

Also, the expanding global footprint of Etsy Payments, and solid momentum across Etsy Ads and Offsite Ads were positives.

The company remains optimistic about its investments across marketing channels. Further, advancing search algorithms, robust Etsy Ads and integration with Etsy Payments remain positives.

### Top Line in Detail

Marketplace revenues were \$341.6 million (75.7% of total revenues), which went up 141.2% from the year-ago quarter. This was driven by strong momentum across buyers. The company witnessed 9.6 million new buyers and 5.2 million reactivated buyers on its Marketplace platform during the reported quarter.

Services revenues were \$109.9 million (24.3% of total revenues), which surged 95.1% on a year-over-year basis. Solid momentum across sellers, owing to the robust Etsy ad program that experienced growth of 106% year over year, remained a major positive.

### Quarter in Detail

Etsy's active buyer base grew 55.4% from the prior-year quarter to 69.6 million. The active seller base stood at 3.7 million, which was up 42% year over year.

Notably, GMS of the company was \$2.6 billion, which surged 119.4% year over year.

Accelerating mask sales, which generated \$264 million in GMS (11% of GMS), owing to the ongoing pandemic, were tailwinds. Excluding mask sales, GMS would have stood at \$2.2 billion, up 93% year over year.

GMS from other categories such as homewares and home furnishings, jewelry and accessories, craft supplies, apparel, paper and party supplies, and beauty and personal care was \$772 million, \$380 million, \$312 million, \$254 million, \$109 million and \$84 million, which were up by 126%, 61%, 114%, 59%, 37% and 164% on a year-over-year basis, respectively.

Additionally, strong GMS from paid channels, which accounted for 19% of total GMS remained major positive.

### Operating Details

In third-quarter 2020, gross margin was 73.4%, which expanded 820 basis points (bps) year over year, owing to the shift to Offsite Ads.

Further, total operating expenses were \$213.1 million, reflecting an increase of 85.7% year over year due to costs related to the shift to Offsite Ads and increasing marketing expenses. However, the figure as a percentage of revenues contracted to 47.2% from 57.9% in the year-ago quarter.

Per the company, operating margin was 26.2%, expanding significantly from 7.2% in the year-ago quarter.

### Balance Sheet

As of Sep 30, 2020, cash and cash equivalents totaled \$1.1 billion, which significantly improved from \$677.5 million as of Jun 30, 2020. Short-term investments were \$379.6 million, up from \$365.7 million in the previous quarter.

Long-term debt stood at \$1.05 billion at the end of the third quarter, up from \$803.2 million at the end of the previous quarter.

### Guidance

For fourth-quarter 2020, the company anticipates total revenues between \$459 million and \$513 million, suggesting year-over-year growth of 70-90%.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 28, 2020 |
| Sales Surprise   | 7.82%        |
| EPS Surprise     | 12.90%       |
| Quarterly EPS    | 0.70         |
| Annual EPS (TTM) | 1.80         |

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Further, GMS is expected to be \$2.7 billion-\$3.1 billion, indicating growth of 65-85% from the year-ago quarter.

Adjusted EBITDA margin is expected to be 24% to 27%.

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## Recent News

On Jul 14, 2020, Etsy's Reverb hiked 3.5% selling fee to 5% in a bid to support its growing investments for Marketplace enhancement and sustaining sellers.

## Valuation

Etsy shares are up 59.6% in the six-month period and 300.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 23.5% and 23.2% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 43% and 49.8%, respectively.

The S&P 500 index is up 14.8% in the six-month period and 23.3% in the past year.

The stock is currently trading at 14.51X forward 12-month sales, which compares to 7.52X for the Zacks sub-industry, 4.9X for the Zacks sector and 4.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.05X and as low as 2.39X, with a 5-year median of 6.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$224 price target reflects 15.25X forward 12-month sales.

The table below shows summary valuation data for ETSY

| Valuation Multiples - ETSY |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 14.51 | 7.52         | 4.9    | 4.52    |
|                            | 5-Year High   | 16.05 | 14.87        | 4.9    | 9.2     |
|                            | 5-Year Low    | 2.39  | 5.12         | 2.79   | 3.48    |
|                            | 5-Year Median | 6.06  | 7.26         | 3.50   | 5.4     |
| P/B TTM                    | Current       | 40.31 | 7.09         | 9.62   | 6.86    |
|                            | 5-Year High   | 44.23 | 7.5          | 10.02  | 6.97    |
|                            | 5-Year Low    | 2.51  | 3.99         | 4.29   | 3.84    |
|                            | 5-Year Median | 12.9  | 6.26         | 5.76   | 4.97    |
| EV/Sales TTM               | Current       | 19.16 | 8.71         | 5.73   | 4.45    |
|                            | 5-Year High   | 21.05 | 12.94        | 5.73   | 4.45    |
|                            | 5-Year Low    | 2.15  | 4.36         | 2.99   | 2.63    |
|                            | 5-Year Median | 7.15  | 7.57         | 3.93   | 3.57    |

As of 02/22/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                     | Rec          | Rank |
|--------------------------------------|--------------|------|
| eBay Inc. (EBAY)                     | Outperform   | 2    |
| Facebook, Inc. (FB)                  | Outperform   | 2    |
| Shopify Inc. (SHOP)                  | Outperform   | 1    |
| Amazon.com, Inc. (AMZN)              | Neutral      | 3    |
| MercadoLibre, Inc. (MELI)            | Neutral      | 3    |
| Overstock.com, Inc. (OSTK)           | Neutral      | 3    |
| Wayfair Inc. (W)                     | Neutral      | 2    |
| Alibaba Group Holding Limited (BABA) | Underperform | 5    |

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

| Industry Comparison Industry: Internet - Services |           |            |           | Industry Peers |            |            |
|---------------------------------------------------|-----------|------------|-----------|----------------|------------|------------|
|                                                   | ETSY      | X Industry | S&P 500   | AMZN           | FB         | SHOP       |
| Zacks Recommendation (Long Term)                  | Neutral   | -          | -         | Neutral        | Outperform | Outperform |
| Zacks Rank (Short Term)                           | 3         | -          | -         | 3              | 2          | 1          |
| VGM Score                                         | B         | -          | -         | A              | C          | C          |
| Market Cap                                        | 28.66 B   | 1.22 B     | 27.70 B   | 1,636.54 B     | 744.84 B   | 174.95 B   |
| # of Analysts                                     | 7         | 3          | 13        | 18             | 16         | 28         |
| Dividend Yield                                    | 0.00%     | 0.00%      | 1.43%     | 0.00%          | 0.00%      | 0.00%      |
| Value Score                                       | D         | -          | -         | D              | C          | F          |
| Cash/Price                                        | 0.05      | 0.11       | 0.06      | 0.05           | 0.08       | 0.04       |
| EV/EBITDA                                         | 170.64    | 10.43      | 15.15     | 30.33          | 16.97      | 509.43     |
| PEG F1                                            | 3.69      | 3.22       | 2.38      | 2.44           | 1.21       | 12.21      |
| P/B                                               | 42.99     | 5.58       | 3.87      | 17.52          | 5.81       | 27.33      |
| P/CF                                              | 173.04    | 23.15      | 15.75     | 34.38          | 20.59      | 464.06     |
| P/E F1                                            | 105.05    | 33.71      | 20.80     | 65.70          | 23.20      | 396.80     |
| P/S TTM                                           | 20.79     | 5.05       | 3.10      | 4.24           | 8.66       | 59.72      |
| Earnings Yield                                    | 0.86%     | 0.29%      | 4.73%     | 1.52%          | 4.31%      | 0.25%      |
| Debt/Equity                                       | 1.65      | 0.10       | 0.66      | 0.34           | 0.00       | 0.12       |
| Cash Flow (\$/share)                              | 1.23      | 0.01       | 6.65      | 92.50          | 12.65      | 2.98       |
| Growth Score                                      | A         | -          | -         | A              | B          | A          |
| Historical EPS Growth (3-5 Years)                 | 80.83%    | 17.22%     | 9.34%     | 78.50%         | 31.67%     | NA         |
| Projected EPS Growth (F1/F0)                      | -9.04%    | 31.14%     | 14.09%    | 18.25%         | 11.75%     | -9.14%     |
| Current Cash Flow Growth                          | 38.42%    | 6.94%      | 1.92%     | 39.56%         | 48.63%     | -620.56%   |
| Historical Cash Flow Growth (3-5 Years)           | 134.75%   | 20.90%     | 7.62%     | 46.61%         | 42.26%     | 101.71%    |
| Current Ratio                                     | 4.98      | 1.81       | 1.39      | 1.05           | 5.05       | 15.69      |
| Debt/Capital                                      | 62.30%    | 10.49%     | 41.22%    | 25.41%         | 0.00%      | 10.59%     |
| Net Margin                                        | 16.83%    | -7.87%     | 10.60%    | 5.53%          | 33.90%     | 10.90%     |
| Return on Equity                                  | 46.30%    | -1.26%     | 14.86%    | 27.07%         | 25.25%     | 4.66%      |
| Sales/Assets                                      | 0.78      | 0.51       | 0.51      | 1.43           | 0.59       | 0.49       |
| Projected Sales Growth (F1/F0)                    | 9.85%     | 17.41%     | 6.63%     | 22.28%         | 26.13%     | 31.04%     |
| Momentum Score                                    | A         | -          | -         | A              | D          | A          |
| Daily Price Change                                | -6.23%    | -1.78%     | 0.01%     | -2.13%         | -0.47%     | -3.74%     |
| 1-Week Price Change                               | -2.82%    | -0.14%     | -0.16%    | -0.85%         | -3.31%     | -1.41%     |
| 4-Week Price Change                               | 2.06%     | 10.05%     | 2.51%     | -3.44%         | -6.36%     | 14.54%     |
| 12-Week Price Change                              | 32.62%    | 30.25%     | 7.83%     | 0.40%          | -6.01%     | 26.68%     |
| 52-Week Price Change                              | 315.20%   | 79.60%     | 12.31%    | 58.30%         | 29.70%     | 181.35%    |
| 20-Day Average Volume (Shares)                    | 2,467,812 | 528,441    | 2,026,525 | 3,545,594      | 17,948,100 | 1,376,998  |
| EPS F1 Estimate 1-Week Change                     | 0.57%     | 0.00%      | 0.00%     | 0.00%          | 0.00%      | 9.66%      |
| EPS F1 Estimate 4-Week Change                     | 0.40%     | 0.00%      | 0.64%     | 10.48%         | 7.17%      | 9.66%      |
| EPS F1 Estimate 12-Week Change                    | -1.29%    | 0.46%      | 1.96%     | 10.45%         | 7.60%      | 17.79%     |
| EPS Q1 Estimate Monthly Change                    | 4.09%     | 0.00%      | 0.27%     | 15.59%         | 10.95%     | 120.43%    |

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.

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### 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   | A |
| Momentum Score | A |
| 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.

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.