

## Extra Space Storage (EXR)

**\$156.58** (As of 06/07/21)

Price Target (6-12 Months): **\$166.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/11/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

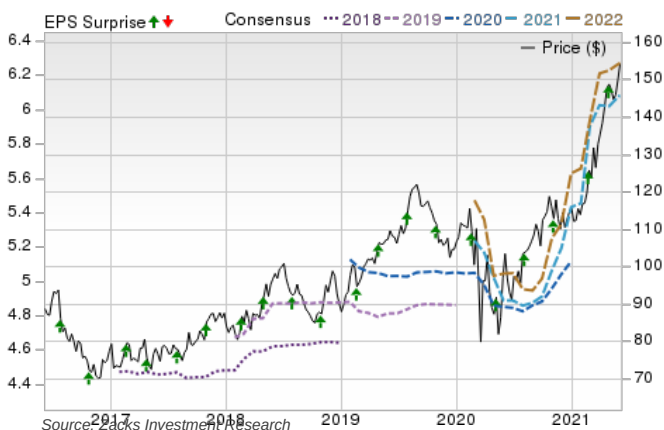
Growth: C

Momentum: A

## Summary

Shares of Extra Space Storage have outperformed the industry over the past three months. Further, the estimate revision trend of 2021 funds from operations (FFO) per share indicates a favorable outlook for the company, with the consensus mark moving north. With a solid presence in key cities, the company is one of the top operators of self-storage spaces in the United States. It focuses on expansion through accretive acquisitions, joint-venture partnerships and a third-party management platform. With high occupancy leading to greater pricing power, a healthy balance-sheet position, high brand value and technological advantage, Extra Space Storage is poised well for growth. However, a development boom in many markets might intensify competition. Moreover, a likely rise in vacating volumes with the abatement of the pandemic remains a concern.

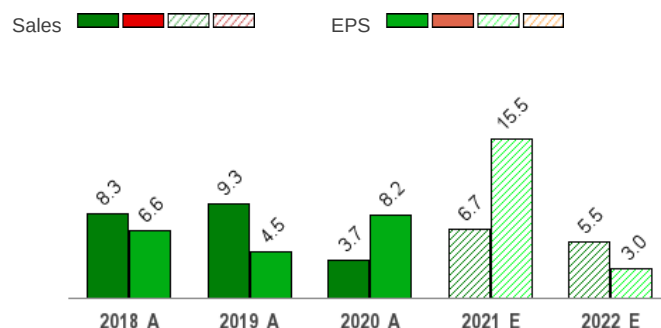
## Price, Consensus & Surprise



## Data Overview

|                                |                                      |
|--------------------------------|--------------------------------------|
| 52-Week High-Low               | <b>\$157.84 - \$88.88</b>            |
| 20-Day Average Volume (Shares) | <b>581,020</b>                       |
| Market Cap                     | <b>\$20.9 B</b>                      |
| Year-To-Date Price Change      | <b>35.2%</b>                         |
| Beta                           | <b>0.17</b>                          |
| Dividend / Dividend Yield      | <b>\$4.00 / 2.6%</b>                 |
| Industry                       | <b>REIT and Equity Trust - Other</b> |
| Zacks Industry Rank            | <b>Bottom 20% (202 out of 251)</b>   |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>0.7%</b>       |
| Last Sales Surprise           | <b>-0.9%</b>      |
| EPS F1 Estimate 4-Week Change | <b>1.2%</b>       |
| Expected Report Date          | <b>08/03/2021</b> |
| Earnings ESP                  | <b>0.8%</b>       |
| P/E TTM                       | <b>28.4</b>       |
| P/E F1                        | <b>25.7</b>       |
| PEG F1                        | <b>5.3</b>        |
| P/S TTM                       | <b>15.1</b>       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | 380 E | 391 E | 399 E | 398 E | 1,526 E |
| 2021 | 359 A | 368 E | 369 E | 360 E | 1,447 E |
| 2020 | 332 A | 327 A | 343 A | 353 A | 1,356 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.50 E | \$1.57 E | \$1.59 E | \$1.60 E | \$6.28 E |
| 2021 | \$1.50 A | \$1.53 E | \$1.53 E | \$1.54 E | \$6.10 E |
| 2020 | \$1.24 A | \$1.23 A | \$1.31 A | \$1.48 A | \$5.28 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

## Overview

Headquartered in Salt Lake City, UT, Extra Space Storage Inc. is a notable name in the self-storage industry. This real estate investment trust (REIT) offers a vast array of well-located storage units to its customers, including boat storage, recreational vehicle storage and business storage.

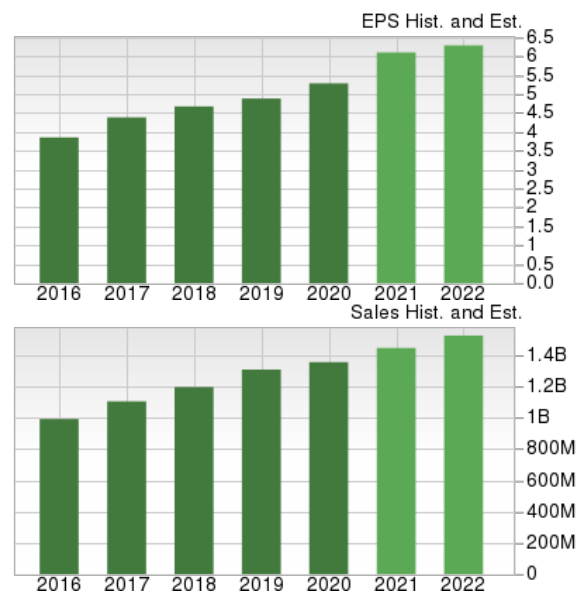
The company makes concerted efforts to consistently grow its business and achieve geographical diversity through accretive acquisitions, mutually beneficial joint-venture partnerships and third-party management services.

In the January-March period, Extra Space Storage acquired nine operating stores for \$148.4 million. The company added 61 stores (gross) to its third-party management platform.

Finally, as of Mar 31, 2021, Extra Space Storage had ownership stakes in, or managed 1,969 self-storage stores in 40 states, Washington, D.C. and Puerto Rico. Out of these 1,969 stores, the company wholly owned 937 stores. It managed 763 stores for third parties and 269 stores in joint ventures, with total stores under management reaching 1,032. The company is the largest self-storage management company in the United States.

The company's stores comprised 1.4 million units and 153.4 million square feet of rentable space. The stores are located in Atlanta, GA; Baltimore, MD; Washington, D.C.; Boston, MA; Chicago; Dallas, TX; Houston, TX; Las Vegas, NV; Los Angeles; Miami, FL; New York City; Orlando, FL; Philadelphia, PA; Phoenix AZ; St. Petersburg/Tampa, FL and San Francisco/Oakland, CA. Extra Space Storage is the second largest owner and/or operator of self-storage properties.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Extra Space Storage is the second-largest owner and/or operator of self-storage properties and the largest self-storage management company in the United States. The company significantly expanded its business in recent years, growing its branded-store count from 820 in 2010 to 1,969 at the end of first-quarter 2021 in 40 states, Washington, D.C. and Puerto Rico. Also, total stores managed for third-party owners increased from 160 to 763 during the same period. Moreover, the majority of its stores are gathered around large population centers. Apart from having above-average population, these markets enjoy favorable income demographics for stores. Therefore, with a geographically diversified portfolio and significant scale, the company is poised for long-term growth.
- ▲ The company also made concerted efforts to consistently grow its business and achieve geographical diversity through accretive acquisitions, mutually beneficial joint-venture partnerships and third-party management services. In addition to acquisitions, the company is making strategic investments through other channels in the storage sector, including preferred equity investments and bridge loan program. Since the beginning of the year through Apr 28, 2021, the company was able to close or put under contract more than \$300 million in acquisitions, which were mainly lease-up properties with several of the properties coming from its bridge lending program. In first-quarter 2021, the company added 61 stores (gross) to its third-party management platform. The company's 2021 guidance assumes \$350 million in Extra Space Storage investment. The company gained an increased scale in several core markets on these acquisitions as well as fortified its presence in a number of new markets. With focus on both primary and secondary markets, the company remains well poised to capitalize on favorable trends.
- ▲ The self-storage asset category is basically need-based and recession-resilient in nature. This asset class has low capital-expenditure requirements and generates high operating margins. Additionally, the self-storage industry continues to benefit from favorable demographic changes. Specifically, migration and downsizing trend, and increase in the number of people renting homes have escalated the needs of consumers to rent space at a storage facility to park their possessions. Further, demand for self-storage space has increased amid the flexible working environment as well as improving housing market, while move-outs remain low amid the health crisis, resulting in improved year-over-year occupancy trends. Management also noted that REIT's record-high occupancy is resulting in greater pricing power. Notably, the REIT's first quarter same-store revenue growth was driven by all-time high occupancy and strong rental rate growth to new customers. Moreover, existing customer rate increases is likely to provide a tailwind in the second quarter as they were paused during much of second-quarter 2020.
- ▲ Extra Space Storage is focused on improving its balance sheet, reduce secured debt and increase the size of its unencumbered pool. The REIT exited first-quarter 2021 with \$60.3 million of cash and cash equivalents. Notably, as of Mar 31, 2021, the company's percentage of fixed-rate debt to total debt was 67%. Moreover, during the quarter, it strengthened its balance sheet through an overnight offering and ATM activity, reaping net proceeds of \$273.7 million. Along with disposition proceeds, the company was able to lower its revolving balances, ending the quarter with net debt to EBITDA of 5.1 times, which is lower than its long-term debt target of 5.5 times to 6 times. Also, during the quarter, it received an issuer credit rating of Baa2, with a stable outlook from Moody's Investors Service. The second investment-grade credit rating renders the company favorable access to the debt market. With solid balance-sheet strength, the company is well poised to capitalize on external growth opportunities, which will likely increase.
- ▲ Furthermore, the industry is characterized by fragmented ownership and only around 30% of the total self-storage square footage is under REIT's ownership. This creates ample scope for consolidation at some level in the future and with a solid scale, decent balance sheet strength and technology advantage, Extra Space Storage remains well poised to compete for acquisitions.
- ▲ Moreover, solid dividend payouts are arguably the biggest enticement for REIT investors and Extra Space Storage remains committed to increasing shareholders' wealth. In March 2021, the company paid a first-quarter dividend of \$1.00, reflecting an 11.1% increase from the prior quarter. In fact, the company has achieved a five-year total increase of 69.5% in dividend. Such shareholder-friendly efforts are encouraging.
- ▲ Shares of Extra Space Storage have gained 22.6% over the past three months, outperforming its industry's rally of 15.1%. The company made an uptick in 2021 same-store expectations mirror better-than-expected first quarter performance, relaxed legislative restrictions in certain markets, as well as better-than-expected resilience in storage fundamentals amid the vaccine roll-out. In addition, the recent trends in estimate revisions for 2021 FFO per share indicates a favorable outlook for the company, with the consensus mark for FFO per share being revised marginally upward over the past month. Therefore, given the progress on fundamentals and upward estimate revision, there is decent upside potential to the stock.

High brand value, strategic acquisitions, robust presence in key cities and healthy balance sheet serve as growth drivers. Moreover, consolidation opportunities offer scope for future growth.

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### Reasons To Sell:

- ▼ Extra Space Storage operates in a highly fragmented market in the United States, with intense competition from numerous private, regional and local operators. In addition, there is a development boom of self-storage units in many markets. This high supply is likely to fuel competition, curb its power to raise rents and turn on more discounting.
- ▼ For Extra Space Storage, vacates are still down and are helping occupancy level to remain high. However, such factors are likely to moderate as tenants revert to more normal move-out behavior as the impact of the pandemic abates, leading to upward pressure on vacate trends, and resulting in adverse pressure on rate growth in many markets.
- ▼ Self-storage spaces are leased on a month-to-month basis. Therefore, tenants have the flexibility to vacate the properties in times of distress. Moreover, the company's operating results would be affected if the storage units are not re-let promptly or if rates upon re-letting fall substantially.

Development boom of self-storage units in many markets, likely rise in vacate volumes with the abatement of the pandemic are likely to curb Extra Space's pricing power and turn on discounting.

## Last Earnings Report

### Extra Space Storage Tops Q1 FFO Estimates, Raises Outlook

Extra Space Storage reported first-quarter 2021 core FFO per share of \$1.50, beating the Zacks Consensus Estimate of \$1.49. The figure was also 21% higher than the prior-year quarter's \$1.24.

Quarterly revenues were \$358.9 million, up 7.9% year over year. However, the top line lagged the Zacks Consensus Estimate of \$362 million.

Results reflect strong average occupancy and higher average rates to customers for the quarter, partially offset by lower late fees. The company also experienced reductions in payroll and marketing expenses, partially offset by increases in property taxes as well as repairs and maintenance. The REIT also raised its full-year core FFO per share outlook.

Per Joe Margolis, CEO of Extra Space Storage, "We are off to a great start in 2021, with the strongest first quarter occupancy in our history, resulting in strong same-store NOI growth, and excellent FFO growth of 21.0%. Our record-high occupancy is resulting in greater pricing power, and we are well positioned for a strong summer leasing season."

### Quarter in Detail

Same-store rental revenues increased 4.6% year over year to \$278.9 million in the first quarter. The uptick in same-store revenues resulted from higher average occupancy and higher average rates to customers for the quarter, partially negated by lower late fees. Same-store square-foot occupancy expanded 480 basis points (bps) year over year to 95.7% as of Mar 31, 2021.

Same-store expenses edged down 0.2% year over year to \$77.9 million and reflect reductions in payroll and marketing expenses. This was partially offset by increases in property taxes as well as repairs and maintenance because of elevated snow removal expense. Consequently, same-store net operating income (NOI) increased 6.5% year over year to nearly \$201 million.

### Balance Sheet

Extra Space Storage exited first-quarter 2021 with \$60.3 million of cash and cash equivalents, down from \$109.1 million recorded at the end of 2020. Notably, as of Mar 31, 2021, the company's percentage of fixed-rate debt to total debt was 67%.

In the quarter, the company sold 1,600,000 shares of common stock through an overnight offering for \$129.13 per share and another 585,685 shares of common stock, using its "at the market" ("ATM") program, at an average sales price of \$115.90 per share, reaping net proceeds of \$273.7 million. With this, the company did not have any shares available for issuance under its ATM program as of Mar 31, 2021. It expects to file a new plan in second-quarter 2021.

Moreover, the company closed \$27.1 million in mortgage and mezzanine bridge loans, and sold \$81.8 million in mortgage bridge loans in the first quarter.

Also, it received an issuer credit rating of Baa2, with a stable outlook from Moody's Investors Service.

### Portfolio Activity

During the January-March period, Extra Space Storage acquired nine operating stores for \$148.4 million.

The company also disposed of 16 wholly-owned stores into a new joint venture for aggregate sales price of \$168.9 million. This resulted in a \$64.5-million gain on real estate transactions.

Extra Space Storage added 61 stores (gross) to its third-party management platform. As of Mar 31, 2021, it managed 763 stores for third parties and 269 stores in joint ventures, with total stores under management reaching 1,032.

### Outlook

The REIT raised the full-year core FFO per share range to \$5.95-\$6.10, marking a \$7.5 expansion at the mid-point.

The company raised same-store revenue range to 5-6%, while same-store expense growth was reduced to 2-3%, leading to a same-store NOI growth range of 6-8%, denoting a 175-basis point expansion at the mid-point. The uptick in same-store expectations mirror better-than-expected first-quarter performance, relaxed legislative restrictions in certain markets, as well as better-than-expected resilience in storage fundamentals amid the vaccine roll-out. It has also guided for \$350 million in acquisitions.

### Quarter Ending 03/2021

|                  |              |
|------------------|--------------|
| Report Date      | Apr 28, 2021 |
| Sales Surprise   | -0.88%       |
| EPS Surprise     | 0.67%        |
| Quarterly EPS    | 1.50         |
| Annual EPS (TTM) | 5.52         |

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## Recent News

### Extra Space Storage Prices \$450M of Senior Notes - May 5, 2021

Extra Space Storage announced that its operating partnership, Extra Space Storage LP, has priced a public offering of \$450 million of 2.550% senior notes due June 1, 2031, at 99.849% of the principal amount. The notes will be fully and unconditionally guaranteed by Extra Space and certain of its subsidiaries.

The net proceeds are planned to be used for funding potential acquisition opportunities, to repay amounts outstanding from time to time under its lines of credit, and for other general corporate and working capital needs.

### Dividend Update

On May 27, the company announced a second-quarter dividend of \$1.00 per share. The dividend will be paid out on Jun 30, to stockholders of record at the close of business on Jun 15, 2021.

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## Valuation

Extra Space Storage's shares have been up 52.1% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have increased 15.3% and 37.4%, respectively.

The S&P 500 Index is up 34.1% over the trailing 12-month period.

The stock is currently trading at 25.42X forward 12-month FFO, which compares to 21.77X for the Zacks sub-industry, 16.77X for the Zacks sector and 21.84X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.42X and as low as 14.68X, with a 5-year median of 19.95X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$166 price target reflects 26.95X FFO.

The table below shows summary valuation data for EXR.

| Valuation Multiples - EXR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 25.42 | 21.77        | 16.77  | 21.84   |
|                           | 5-Year High   | 25.42 | 21.77        | 17.24  | 23.83   |
|                           | 5-Year Low    | 14.68 | 14.57        | 11.60  | 15.31   |
|                           | 5-Year Median | 19.95 | 16.41        | 14.94  | 18.05   |
| P/S F12M                  | Current       | 14.13 | 8.26         | 8.55   | 4.72    |
|                           | 5-Year High   | 14.13 | 8.44         | 8.55   | 4.74    |
|                           | 5-Year Low    | 6.98  | 5.47         | 5.08   | 3.21    |
|                           | 5-Year Median | 9.70  | 6.41         | 6.21   | 3.72    |
| P/B TTM                   | Current       | 6.32  | 2.71         | 3.41   | 7.03    |
|                           | 5-Year High   | 6.32  | 2.72         | 3.41   | 7.03    |
|                           | 5-Year Low    | 3.31  | 1.63         | 1.77   | 3.84    |
|                           | 5-Year Median | 4.38  | 2.33         | 2.64   | 5.02    |

As of 06/07/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 251)



## Top Peers

| Company (Ticker)                                       | Rec          | Rank |
|--------------------------------------------------------|--------------|------|
| CubeSmart ( <b>CUBE</b> )                              | Neutral      | 3    |
| Iron Mountain Incorporated ( <b>IRM</b> )              | Neutral      | 3    |
| Gladstone Land Corporation ( <b>LAND</b> )             | Neutral      | 4    |
| Life Storage, Inc. ( <b>LSI</b> )                      | Neutral      | 3    |
| National Storage Affiliates Trust ( <b>NSA</b> )       | Neutral      | 2    |
| Public Storage ( <b>PSA</b> )                          | Neutral      | 2    |
| Safehold Inc. ( <b>SAFE</b> )                          | Neutral      | 3    |
| Innovative Industrial Properties, Inc. ( <b>IIPR</b> ) | Underperform | 5    |

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

| Industry Comparison Industry: Reit And Equity Trust - Other |         |            |           | Industry Peers |         |         |
|-------------------------------------------------------------|---------|------------|-----------|----------------|---------|---------|
|                                                             | EXR     | X Industry | S&P 500   | CUBE           | LSI     | PSA     |
| Zacks Recommendation (Long Term)                            | Neutral | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                                     | 3       | -          | -         | 3              | 3       | 2       |
| VGM Score                                                   | C       | -          | -         | C              | C       | D       |
| Market Cap                                                  | 20.94 B | 3.07 B     | 30.32 B   | 9.20 B         | 8.00 B  | 50.96 B |
| # of Analysts                                               | 7       | 4          | 12        | 6              | 5       | 8       |
| Dividend Yield                                              | 2.55%   | 2.80%      | 1.29%     | 2.98%          | 2.84%   | 2.75%   |
| Value Score                                                 | D       | -          | -         | D              | D       | F       |
| Cash/Price                                                  | 0.00    | 0.03       | 0.06      | 0.00           | 0.00    | 0.00    |
| EV/EBITDA                                                   | 27.92   | 18.97      | 17.33     | 28.24          | 28.37   | 28.99   |
| PEG F1                                                      | 5.31    | 3.30       | 2.13      | 4.91           | 6.47    | 4.16    |
| P/B                                                         | 6.32    | 1.61       | 4.17      | 4.88           | 3.14    | 10.56   |
| P/CF                                                        | 27.37   | 16.10      | 17.93     | 27.44          | 27.25   | 26.61   |
| P/E F1                                                      | 25.85   | 19.31      | 21.52     | 24.55          | 23.48   | 25.00   |
| P/S TTM                                                     | 15.14   | 7.77       | 3.52      | 13.07          | 12.47   | 17.24   |
| Earnings Yield                                              | 3.90%   | 5.01%      | 4.55%     | 4.07%          | 4.26%   | 4.00%   |
| Debt/Equity                                                 | 1.60    | 0.87       | 0.66      | 1.20           | 0.88    | 0.62    |
| Cash Flow (\$/share)                                        | 5.72    | 1.70       | 6.83      | 1.66           | 3.82    | 10.94   |
| Growth Score                                                | C       | -          | -         | B              | C       | B       |
| Historical EPS Growth (3-5 Years)                           | 8.16%   | 0.82%      | 9.44%     | 4.83%          | 3.32%   | 3.09%   |
| Projected EPS Growth (F1/F0)                                | 15.48%  | 6.17%      | 21.30%    | 8.14%          | 11.74%  | 9.81%   |
| Current Cash Flow Growth                                    | 10.02%  | -2.35%     | 0.98%     | -3.16%         | -23.29% | -6.05%  |
| Historical Cash Flow Growth (3-5 Years)                     | 13.38%  | 10.49%     | 7.28%     | 6.98%          | 10.49%  | 1.92%   |
| Current Ratio                                               | 0.49    | 1.63       | 1.39      | 0.04           | 0.31    | 0.43    |
| Debt/Capital                                                | 61.53%  | 46.73%     | 41.53%    | 57.32%         | 46.73%  | 25.80%  |
| Net Margin                                                  | 43.95%  | 10.86%     | 11.95%    | 24.07%         | 25.33%  | 43.22%  |
| Return on Equity                                            | 20.70%  | 2.60%      | 16.36%    | 9.39%          | 7.15%   | 27.74%  |
| Sales/Assets                                                | 0.15    | 0.11       | 0.51      | 0.16           | 0.14    | 0.25    |
| Projected Sales Growth (F1/F0)                              | 6.70%   | 6.44%      | 9.30%     | 12.00%         | 13.18%  | 7.88%   |
| Momentum Score                                              | A       | -          | -         | D              | A       | B       |
| Daily Price Change                                          | 1.56%   | 1.70%      | -0.33%    | 1.53%          | 0.82%   | 0.87%   |
| 1-Week Price Change                                         | 2.91%   | 2.08%      | 0.58%     | 2.69%          | 3.88%   | 2.21%   |
| 4-Week Price Change                                         | 5.91%   | 4.95%      | 0.12%     | 7.06%          | 8.04%   | 5.07%   |
| 12-Week Price Change                                        | 17.28%  | 5.63%      | 6.91%     | 18.54%         | 18.37%  | 20.10%  |
| 52-Week Price Change                                        | 49.75%  | 17.46%     | 29.97%    | 56.53%         | 49.70%  | 40.90%  |
| 20-Day Average Volume (Shares)                              | 581,020 | 575,339    | 1,799,698 | 957,904        | 502,605 | 730,895 |
| EPS F1 Estimate 1-Week Change                               | 0.33%   | 0.00%      | 0.00%     | 1.00%          | 0.42%   | -0.08%  |
| EPS F1 Estimate 4-Week Change                               | 1.20%   | 0.00%      | 0.01%     | 1.00%          | 0.29%   | 0.32%   |
| EPS F1 Estimate 12-Week Change                              | 0.88%   | 0.23%      | 3.36%     | 1.75%          | 3.11%   | 4.22%   |
| EPS Q1 Estimate Monthly Change                              | 1.42%   | 0.00%      | 0.00%     | -0.14%         | 1.48%   | 1.37%   |

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    | <b>D</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>C</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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## 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.