

## Fifth Third Bancorp (FITB)

**\$21.29** (As of 09/02/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

**Zacks Recommendation: Underperform**

(Since: 07/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM: C

Value: A

Growth: C

Momentum: F

### Summary

Fifth Third's persistently rising costs due to the investments in branch-digitization initiative remains a major concern. Also, significant exposure to commercial loans is a headwind amid uncertain markets. Further, the company is exposed to credit risk in case of any economic downturn. However, shares of Fifth Third have outperformed the industry so far this year. Also, the company has a decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters and missed in the other two. Focus on execution of strategic efforts are likely to boost its efficiency and revenues. Also, rising loans and deposits balance keep the bank well-poised to undertake expansions and might aid margin expansion despite lower interest rates. Nevertheless, involvement in several lawsuits might keep legal costs elevated.

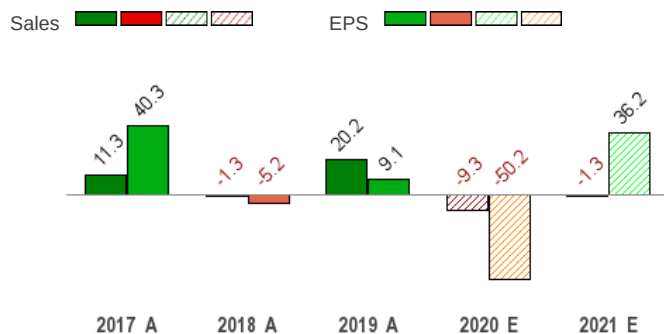
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$31.64 - \$11.10</b>           |
| 20-Day Average Volume (Shares) | <b>4,542,121</b>                   |
| Market Cap                     | <b>\$15.2 B</b>                    |
| Year-To-Date Price Change      | <b>-30.8%</b>                      |
| Beta                           | <b>1.70</b>                        |
| Dividend / Dividend Yield      | <b>\$1.08 / 5.1%</b>               |
| Industry                       | <b>Banks - Major Regional</b>      |
| Zacks Industry Rank            | <b>Bottom 14% (215 out of 251)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>15.4%</b>      |
| Last Sales Surprise           | <b>-0.1%</b>      |
| EPS F1 Estimate 4-Week Change | <b>-0.8%</b>      |
| Expected Report Date          | <b>10/27/2020</b> |
| Earnings ESP                  | <b>-10.6%</b>     |

|         |             |
|---------|-------------|
| P/E TTM | <b>11.4</b> |
| P/E F1  | <b>15.4</b> |
| PEG F1  | <b>2.2</b>  |
| P/S TTM | <b>1.7</b>  |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,821 E | 1,858 E | 1,881 E | 1,916 E | 7,458 E |
| 2020 | 1,900 A | 1,850 A | 1,847 E | 1,924 E | 7,558 E |
| 2019 | 2,183 A | 1,905 A | 1,982 A | 2,263 A | 8,333 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.37 E | \$0.43 E | \$0.52 E | \$0.56 E | \$1.88 E |
| 2020 | \$0.13 A | \$0.30 A | \$0.48 E | \$0.52 E | \$1.38 E |
| 2019 | \$0.63 A | \$0.71 A | \$0.75 A | \$0.68 A | \$2.77 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/02/2020. The reports text is as of 09/03/2020.

## Overview

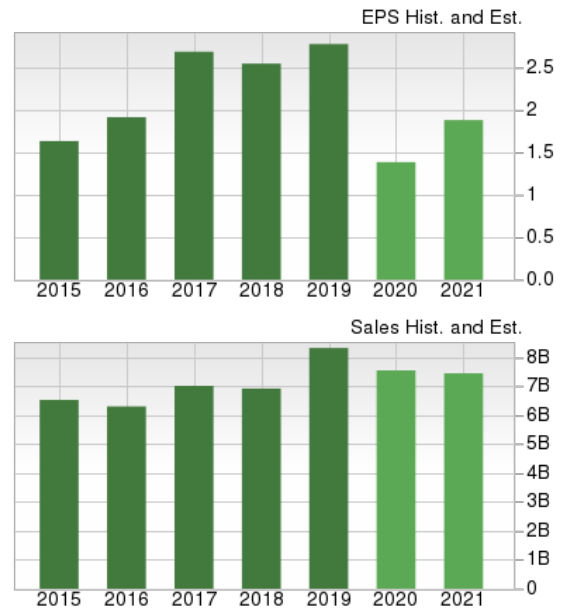
With assets of \$20 billion, Cincinnati-based Fifth Third Bancorp has 1,123 full-service banking centers in 10 states throughout the Midwestern and Southeastern regions of the United States. In September 2019, Fifth Third received OCC's approval to convert from an Ohio state-chartered bank to a national bank. Fifth Third classifies its operations into mainly four reportable segments:

- **Branch Banking** (contributed 34% to net income in 2019) provides deposit, loan and lease products, and credit cards to individuals and small businesses.
- **Consumer Lending** (4%) includes mortgage and home equity lending, as well as other indirect lending activities.
- **Commercial Banking** (57%) provides financial services and products to large and middle-market businesses, governments and professional customers.
- **Wealth and Asset Management** (4%) offers investment alternatives to individuals, companies and non-profit organizations. These consist of proprietary mutual funds, securities brokerage and asset management services.

Further, Other segment (1%) includes unallocated portion of investment securities portfolio, securities gains and losses, non-core deposit funding, unassigned equity, provision expense above net charge-offs or benefit from reduction of allowance for loan losses, representation and warranty expense above actual losses or benefit from reduction of representation and warranty reserves, payment of preferred stock dividends and additional activities.

In March 2019, Fifth Third completed the acquisition of MB Financial, for a total consideration of \$3.6 billion. In February 2018, it acquired Coker Capital, a healthcare M&A advisory firm. In 2017, it acquired R.G. McGraw Insurance Agency.

Notably, Fifth Third has exited its entire stake in all publicly-traded companies. In March 2019, the company exchanged its remaining shares of Worldpay Holdings, LLC for shares of Worldpay, Inc., and subsequently sold its shares, recording a gain of \$562 million. During March and April 2019, Fifth Third exchanged its Class B units of GreenSky Holdings, LLC for Class A common stock of GreenSky, Inc., and subsequently sold all of the stock.



Source: Zacks Investment Research

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## Reasons To Sell:

- ▼ Elevated non-interest expenses, despite efficiency initiatives remain a major concern for Fifth Third. Initiatives such as branch digitization keep the company's expense base under pressure in the short term. Given its ongoing strategic investments in several areas including technology, expenses might escalate in the near-term. Additionally, the company continues to encounter investigations and lawsuits from investors and regulators, which are expected to lead to higher legal expenses and provisions. Though costs declined in the first six months of 2020, expenses recorded a five-year CAGR of 6.3% in 2019.
- ▼ As of Jun 30, 2020, the company held a debt level of \$17.9 billion and has remained volatile over the past few quarters. Debt-to-capital ratio of 0.42 has remained nearly stable. Also, its time-interest-earned ratio of 4.7X has witnessed a fall in comparison to the past few quarters. Since this ratio indicates the company's ability to meet its debt obligations based on current income, we believe Fifth Third carries higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▼ The loan portfolio of Fifth Third comprises majorly commercial loans (nearly 66% as of Jun 30, 2020). Such high exposure can be risky for the company signifying concentration risk amid uncertain markets.
- ▼ Fifth Third's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 7.37% has gradually improved over the years, it compares unfavorably with 8.52% for the industry average, indicating the fact that it is less efficient in using shareholders' funds.
- ▼ Shares of Fifth Third have outperformed the industry so far this year. Despite this favorable trend, the company's earnings estimates for the current year have been revised 4.2% downward over the past 30 days. Therefore, given the above concerns, the stock has limited upside potential.

Strategic investments in areas such as technology and involvement in legal issues keep non-interest expenses elevated. Also, significant exposure to commercial loans remains a concern for Fifth Third.

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## Risks

- With the gradual change in the rate environment, margin pressure for Fifth Third eased. In the last four years (ended 2019), the company reported improving net interest margin (NIM) after witnessing a declining trend for years. The increase reflected an improvement in the yield on earning assets. NIM declined in the first half of 2020 due to low rates. Nevertheless, margin is anticipated to benefit from loan growth and higher loan yields.
  - Fifth Third's diverse revenue base will likely support its earnings growth. The company has expanded its non-interest income base, which now represents about 35% of total revenues in the first six months of 2020. Additionally, the company remains focused on executing measures, including branch consolidation. Also, the company is focused on strategic investments through North Star initiatives and MB Financial's buyout, which are expected to result in revenue growth, expense savings and operational excellence. Particularly, the company anticipates an annual pretax income benefit of \$60-\$75 million by 2022. Also, the transaction is likely to reduce expenses by \$255 million.
  - The company's deposit balances represent an important source of funding and revenue growth opportunity. Fifth Third continues to focus on core deposit growth in its retail and commercial franchises by improving customer satisfaction, building full relationships and offering competitive rates. Notably, Fifth Third's total deposits, and loans and leases recorded a CAGR of 5.2% and 4.4%, respectively, over the last five years ending 2019, with some annual volatility. The increasing trend continued in the first two quarters of 2020. We believe the company is well positioned to strengthen its organic growth as the U.S. economy is gaining traction.
  - Fifth Third's capital-deployment activities are impressive. The company raised its quarterly common stock dividend by 12.5% this February. Also, the company announced a share buyback program of up to 100 million shares in June 2019, with no expiration date, that was suspended mid-March following the coronavirus crisis. Notably, following the 2020 stress test, the company maintained the dividend level as before and will be keeping share repurchases suspended in the third quarter of 2020 as well. Fifth Third's capital-deployment activities seem sustainable due to its improving earnings performance over the past few quarters and strong balance-sheet position.
  - Proactive steps have been taken by Fifth Third to improve its credit quality. In the last few years, the company took aggressive actions to reduce credit risk. Further, in line with its strategy to reduce volatility, particularly given the current environment, the company shrank exposures in certain segments such as commodity trading. Going forward, we expect the overall improvement in the credit metrics trend might continue given the economic recovery
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## Last Earnings Report

### Fifth Third Q2 Earnings Beat Estimates, Costs Decline

Fifth Third has reported second-quarter 2020 adjusted earnings of 30 cents per share, surpassing the Zacks Consensus Estimate of 26 cents. However, results compared unfavorably with the prior-year quarter's earnings of 71 cents per share.

The company's performance displays a strong capital position, with escalating loans and deposits. Also, lower expenses came as a tailwind. However, the results were largely affected by higher provisions due to the coronavirus pandemic. Also, a decline in revenues was an undermining factor.

Certain non-recurring items included in second-quarter results were the impact of the COVID-19 outbreak and merger-related expenses of \$16 million, \$10 million of branch and non-branch real estate charges, and \$22 million related to the valuation of Visa total return swap.

Net income available to common shareholders slumped 62% year over year to \$163 million.

### Revenues Fall, Costs Decline, Loans & Deposits Rise

Total adjusted revenues for the reported quarter were \$1.85 billion, down 3% year over year, driven by lower net interest as well as fee income. The figure met the Zacks Consensus Estimate.

Fifth Third's net interest income (tax equivalent) was \$1.2 billion, down 4% year over year. The fall primarily reflects impacts of lower rates, partially offset by elevated average commercial line draws, lower yielding PPP loans and low deposit costs. Net interest margin contracted 62 basis points (bps) year over year to 2.75%.

Adjusted non-interest income declined slightly year over year to \$670 million. Including significant items, non-interest income slipped 2% year over year to \$650 million. Decline in service charges on deposits along with leasing business, and card and processing revenues were partly muted by higher mortgage banking and commercial revenues on a year-over-year basis.

Excluding merger-related expenses, non-interest expenses decreased 2% from the prior-year quarter to \$1.11 billion. The decline chiefly resulted from a fall in almost all components. Including merger expenses, costs fell 10% year over year.

As of Jun 30, 2020, average loan and lease balances jumped around 7% sequentially to \$118.5 billion. The upswing mainly stemmed from increased commercial loans and leases. Average total deposits advanced 19% sequentially to \$150.6 billion.

### Credit Quality: A Concern

Credit metrics deteriorated in the quarter. Provision for credit losses surged significantly to \$485 million from \$85 million in the year-ago quarter. Net charge-offs for the first quarter were \$130 million or 44 basis points (bps) of average loans and leases on an annualized basis compared with \$78 million or 29 bps witnessed in the prior-year quarter.

Further, total allowance for credit losses more than doubled to \$2.87 billion from the prior-year quarter. Total non-performing assets, including loans held for sale, were \$747 million, up 33.4% from the year-ago quarter.

### Strong Capital Position

Fifth Third was well-capitalized during the April-June period. The Tier 1 risk-based capital ratio was 10.95% compared with 10.62% posted at the end of the prior-year quarter. The CET1 capital ratio (fully phased-in) was 9.72% as against 9.57% recorded at the end of the year-ago quarter. The Tier 1 leverage ratio was 8.16% as compared with the year-earlier quarter's 9.24%.

### Outlook

#### Third-Quarter 2020

Excluding the impact of PPP loans, management expects loan to core deposit ratio to remain stable through 2020-end.

NII is expected to decline 3% from the last quarter, assuming no benefits from accelerated amortization of PPP fees. This decline is primarily attributable to the impact of line paydowns in commercial business as the impact of lower floating rate loans is fully offset by the hedges as well as the funding rate benefits.

NIM is expected to contract another 7-10 bps, driven by the full quarter impact of higher cash positions and PPP loans with NIM expected to then recover in the fourth quarter.

The company expects non-interest income to be up 2%. Service charges on deposits revenues to increase in the low-double-digit range sequentially in the third quarter of 2020. Also, card and processing revenues to increase in the low-to-mid-single-digit range.

The company expects non-interest expenses to be up 2% sequentially. Part of the expense increase is due to performance-based comp related to mortgage, wealth and asset management and leasing revenues that tend to result in higher dollar payouts. In addition, there are some accelerated expenses in IT that are related to our focus on automation.

Average loans and leases are anticipated to be down 3.5-4% sequentially, with a 6-7% decline in commercial loans and a 3% increase in consumer balances. The decline in commercial balances is a result of the paydowns in commercial credit lines.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 23, 2020 |
| Sales Surprise   | -0.07%       |
| EPS Surprise     | 15.38%       |
| Quarterly EPS    | 0.30         |
| Annual EPS (TTM) | 1.86         |

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Charge-offs is expected to remain near historically low levels and be 50-55 bps.

Effective tax rate is expected to be 21%.

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## Recent News

### Fifth Third to Appoint 1,000 Employees Amid Coronavirus Crisis – Apr 6, 2020

Amid coronavirus crisis, Fifth Third is on a hiring spree to cater to the demand of increased Small Business Administration-backed loans followed by the \$2-trillion federal Coronavirus Aid, Relief and Economic Security (CARES) Act, passed this March. Notably, this package would dedicate \$350 billion worth small business loans.

Fifth Third plans to appoint nearly 1,000 employees in retail banking centers, mortgage and operations in branches all over, including higher numbers in the bank's headquarters. The roles will "provide essential banking services to customers and offer new career opportunities for those searching for employment during economic hardship."

"Our Fifth Third customers and communities need us more than ever during these uncertain times, and we will continue to be here for them," said Greg D. Carmichael, chairman, president and CEO of Fifth Third. "I'm proud of the extraordinary service our employees are providing each day. We are looking to grow our team of professionals to serve these needs and to help provide critical employment opportunities so our communities can get back to work again," noted the CEO.

The roles offered include 500 positions in retail, 350 mortgage sales and support positions, along with 100 positions in operations. Fifth Third is also providing attractive benefits package to retain the workforce.

Notably, banks are transitioning employees to work remotely in a bid to contain the spread of COVID-19. Fifth Third is also catering protective measures for both employees and customers, and offering enhanced digital operations, including online or mobile banking, along with fee-free ATMs.

"We continue to take good care of our employees so they can continue to take good care of our customers," Carmichael said. "Now more than ever, our customers are counting on us to provide them with the financial expertise and essential banking services necessary to navigate uncertainty," he further added.

### Fifth Third Faces Lawsuit Over Fake Account Opening - Mar 9, 2020

Fifth Third has been accused of opening fake accounts for customers to meet aggressive sales targets. A lawsuit has been filed against the company by the Consumer Financial Protection Bureau ("CFPB") for its wrongdoing.

Per the lawsuit, Fifth Third Bank opened unauthorized client deposit and credit-card accounts from 2008 till 2016. Notably, the suit claims that the bank knew that its employees were engaged in such wrongdoing.

The bank has also been accused of transferring money from a customer's existing account to its new one, without their consent, which is a violation of the Truth in Savings Act.

The CFPB stated, "Despite knowing since at least 2008 that employees were opening unauthorized consumer-financial accounts, Fifth Third took insufficient steps to detect and stop the conduct and to identify and remediate harmed consumers."

It added that the program "created incentives for employees to engage in misconduct in order to meet goals or earn additional compensation."

However, Fifth Third considers the lawsuit to be unnecessary. The bank said in a statement that it already conducted an investigation into the allegations. It found out that 1,100 accounts out of 10 million existing accounts were opened fraudulently and the amount of financial damage caused by these employees was less than \$30,000.

### Dividend Update

On Jun 16, Fifth Third announced a cash dividend of 27 cents per share. The dividend was paid on Jul 15 to shareholders of record as of Jun 30.

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## Valuation

Fifth Third's shares are down 30.7% in the year-to-date period and 17.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.6% and 13.8% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 16.7% and 5.1%, respectively.

The S&P 500 Index is up 6.9% in the year-to-date period and 17.4% in the past year.

The stock is currently trading at 12.41X forward 12 months earnings, which compares to 13.26X for the Zacks sub-industry, 16.94X for the Zacks sector and 23.94X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.11X and as low as 3.99X, with a 5-year median of 11.34X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$18 price target reflects 10.55X forward earnings.

The table below shows summary valuation data for FITB

| Valuation Multiples - FITB |       |              |        |         |
|----------------------------|-------|--------------|--------|---------|
|                            | Stock | Sub-Industry | Sector | S&P 500 |
| Current                    | 12.41 | 13.26        | 16.94  | 23.94   |

|          |               |       |       |       |       |
|----------|---------------|-------|-------|-------|-------|
| P/E F12M | Current       | 12.41 | 13.26 | 16.94 | 23.94 |
|          | 5-Year High   | 17.11 | 14.2  | 16.94 | 23.94 |
|          | 5-Year Low    | 3.99  | 8.01  | 11.6  | 15.25 |
|          | 5-Year Median | 11.34 | 11.37 | 14.26 | 17.6  |
| P/TB TTM | Current       | 0.99  | 1.55  | 3.44  | 13.56 |
|          | 5-Year High   | 2.13  | 2.68  | 4     | 13.83 |
|          | 5-Year Low    | 0.6   | 1.21  | 2.01  | 6.03  |
|          | 5-Year Median | 1.53  | 2.11  | 3.48  | 9.54  |
| P/S F12M | Current       | 2.02  | 2.84  | 6.23  | 4.4   |
|          | 5-Year High   | 3.67  | 4.59  | 6.67  | 4.4   |
|          | 5-Year Low    | 1.07  | 2.39  | 4.97  | 2.53  |
|          | 5-Year Median | 2.61  | 3.59  | 6.07  | 3.07  |

As of 09/02/2020



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



## Top Peers

| Company (Ticker)                          | Rec     | Rank |
|-------------------------------------------|---------|------|
| Citizens Financial Group, Inc. (CFG)      | Neutral | 3    |
| Comerica Incorporated (CMA)               | Neutral | 3    |
| East West Bancorp, Inc. (EWBC)            | Neutral | 3    |
| Huntington Bancshares Incorporated (HBAN) | Neutral | 3    |
| KeyCorp (KEY)                             | Neutral | 3    |
| MT Bank Corporation (MTB)                 | Neutral | 3    |
| Regions Financial Corporation (RF)        | Neutral | 4    |
| Webster Financial Corporation (WBS)       | Neutral | 4    |

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

| Industry Comparison Industry: Banks - Major Regional |              |            |           | Industry Peers |           |           |
|------------------------------------------------------|--------------|------------|-----------|----------------|-----------|-----------|
|                                                      | FITB         | X Industry | S&P 500   | CMA            | HBAN      | KEY       |
| Zacks Recommendation (Long Term)                     | Underperform | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                              | 4            | -          | -         | 3              | 3         | 3         |
| VGM Score                                            | C            | -          | -         | F              | C         | D         |
| Market Cap                                           | 15.16 B      | 33.37 B    | 24.30 B   | 5.59 B         | 9.86 B    | 12.40 B   |
| # of Analysts                                        | 9            | 8          | 14        | 11             | 11        | 9         |
| Dividend Yield                                       | 5.07%        | 3.93%      | 1.6%      | 6.77%          | 6.19%     | 5.82%     |
| Value Score                                          | A            | -          | -         | D              | B         | B         |
| Cash/Price                                           | 2.13         | 2.41       | 0.07      | 2.41           | 0.66      | 1.26      |
| EV/EBITDA                                            | 0.30         | -0.84      | 13.46     | -0.52          | 6.08      | 4.50      |
| PEG F1                                               | 2.18         | 2.29       | 3.09      | 12.77          | 3.34      | 2.53      |
| P/B                                                  | 0.74         | 0.86       | 3.25      | 0.75           | 0.93      | 0.79      |
| P/CF                                                 | 5.85         | 6.56       | 13.12     | 4.45           | 5.57      | 5.85      |
| P/E F1                                               | 15.65        | 14.52      | 22.15     | 21.97          | 16.45     | 14.43     |
| P/S TTM                                              | 1.65         | 1.91       | 2.57      | 1.60           | 1.81      | 1.65      |
| Earnings Yield                                       | 6.48%        | 6.89%      | 4.29%     | 4.55%          | 6.09%     | 6.92%     |
| Debt/Equity                                          | 0.79         | 0.88       | 0.70      | 0.88           | 0.92      | 0.88      |
| Cash Flow (\$/share)                                 | 3.64         | 6.63       | 6.93      | 9.04           | 1.74      | 2.17      |
| Growth Score                                         | C            | -          | -         | F              | F         | F         |
| Historical EPS Growth (3-5 Years)                    | 10.96%       | 10.96%     | 10.41%    | 25.58%         | 8.14%     | 11.74%    |
| Projected EPS Growth (F1/F0)                         | -50.10%      | -42.47%    | -4.75%    | -76.76%        | -53.61%   | -45.27%   |
| Current Cash Flow Growth                             | 17.50%       | 2.66%      | 5.22%     | -4.61%         | -4.72%    | -3.09%    |
| Historical Cash Flow Growth (3-5 Years)              | 6.10%        | 9.49%      | 8.49%     | 12.59%         | 12.14%    | 12.28%    |
| Current Ratio                                        | 0.90         | 0.89       | 1.35      | 1.02           | 0.92      | 0.92      |
| Debt/Capital                                         | 42.23%       | 44.79%     | 42.92%    | 45.53%         | 44.20%    | 43.91%    |
| Net Margin                                           | 16.55%       | 18.16%     | 10.25%    | 17.42%         | 16.27%    | 15.85%    |
| Return on Equity                                     | 7.37%        | 8.52%      | 14.66%    | 8.22%          | 8.35%     | 8.52%     |
| Sales/Assets                                         | 0.05         | 0.05       | 0.50      | 0.05           | 0.05      | 0.05      |
| Projected Sales Growth (F1/F0)                       | -9.30%       | -1.23%     | -1.42%    | -14.41%        | 1.65%     | 1.94%     |
| Momentum Score                                       | F            | -          | -         | C              | B         | F         |
| Daily Price Change                                   | 2.09%        | 1.44%      | 1.82%     | 0.73%          | 2.65%     | 1.44%     |
| 1-Week Price Change                                  | 7.92%        | 5.54%      | 2.59%     | 4.74%          | 5.05%     | 6.86%     |
| 4-Week Price Change                                  | 7.12%        | 4.39%      | 4.80%     | 4.72%          | 3.19%     | 3.50%     |
| 12-Week Price Change                                 | -4.98%       | -4.98%     | 6.31%     | -3.88%         | -6.83%    | -8.43%    |
| 52-Week Price Change                                 | -17.98%      | -17.98%    | 5.43%     | -33.62%        | -25.75%   | -22.50%   |
| 20-Day Average Volume (Shares)                       | 4,542,121    | 4,250,474  | 1,788,967 | 1,282,743      | 7,078,135 | 8,363,587 |
| EPS F1 Estimate 1-Week Change                        | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                        | -0.84%       | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 12-Week Change                       | 5.40%        | 13.40%     | 3.89%     | 56.00%         | 36.71%    | 28.63%    |
| EPS Q1 Estimate Monthly Change                       | -3.80%       | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.46%     |

Source: Zacks Investment Research

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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    | <b>A</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>F</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.