

## General Electric (GE)

**\$8.09** (As of 11/06/20)

Price Target (6-12 Months): **\$8.50**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

## Summary

In the past three months, General Electric's shares have outperformed the industry. The company is poised to gain from its portfolio-restructuring program, expansion in digital business, efforts to deleverage balance sheet and solid liquidity position in the quarters ahead. Also, its actions to lower exposure in GE Capital might hurt. In third-quarter 2020, its earnings surpassed estimates by 200%, but fell 60% year over year. The company predicts Industrial free cash flow to be \$2.5 billion or more in fourth-quarter 2020, and to be positive in 2021. However, the pandemic-related market challenges — especially for Healthcare, Aviation and Power — related to the pandemic remain concerning. Its measures to deal with the pandemic might be a relief. In addition, forex woes might hurt in the quarters ahead.

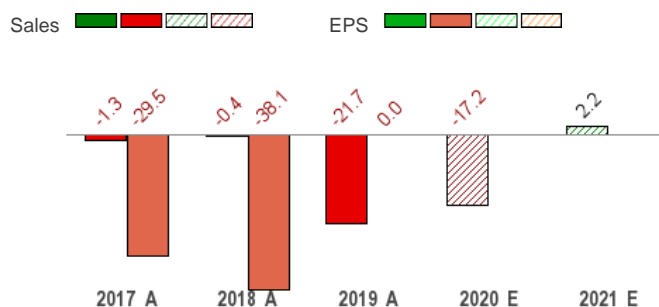
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$13.26 - \$5.48</b>
20-Day Average Volume (Shares)	<b>116,244,304</b>
Market Cap	<b>\$70.9 B</b>
Year-To-Date Price Change	<b>-27.5%</b>
Beta	<b>0.76</b>
Dividend / Dividend Yield	<b>\$0.04 / 0.5%</b>
Industry	<b>Diversified Operations</b>
Zacks Industry Rank	<b>Bottom 33% (166 out of 249)</b>

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



Last EPS Surprise	<b>200.0%</b>
Last Sales Surprise	<b>1.4%</b>
EPS F1 Estimate 4-Week Change	<b>31.3%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>3.2%</b>

P/E TTM	<b>47.6</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.8</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	18,145 E	18,915 E	20,544 E	23,367 E	80,567 E
2020	20,524 A	17,750 A	19,417 A	21,343 E	78,844 E
2019	27,286 A	28,831 A	23,360 A	26,238 A	95,214 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.05 E	\$0.05 E	\$0.11 E	\$0.16 E	\$0.28 E
2020	\$0.05 A	-\$0.15 A	\$0.06 A	\$0.08 E	-\$0.01 E
2019	\$0.14 A	\$0.17 A	\$0.15 A	\$0.21 A	\$0.65 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 11/06/2020. The reports text is as of 11/09/2020.

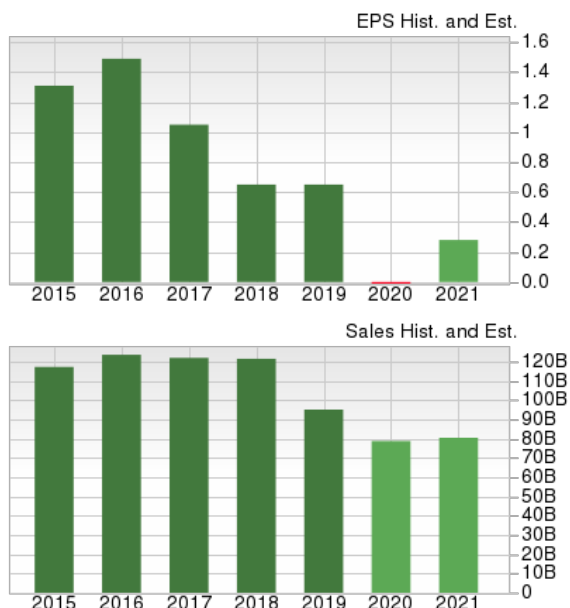
## Overview

General Electric Company is popular for its LEAP aircraft engines, Heavy-Duty gas turbines, Haliade-X and Cypress wind turbines, and healthcare solutions. Its zeal to invest in upgrades and innovation of products along with outstanding service capabilities and technological expertise raises its competitive appeal. Also, the high-tech giant's plan to strengthen its industrial businesses — with a focus on Power, Aviation and Renewable Energy — and deleverage the balance sheet will boost fundamentals and shareholders' value.

Founded in 1892, General Electric is currently headquartered in Boston, MA. Its products and services range from jet engines, airframes, energy production solutions to offshore wind turbines, technologies in medical imaging and leasing and financing services, among others.

The company's industrial manufacturing and services business are grouped under the Industrial segment. Results of the segment, in turn, are the summation of four industrial operating segments — Power, Renewable Energy, Aviation and Healthcare. The company's financial services operating segment includes results of GE Capital. In short, General Electric currently has the following operating segments:

- GE Capital meets the financial needs of businesses of all sizes with a diverse range of products. Efforts are on track to reduce exposure in the GE Capital business.
- Power produces steam and gas turbines, power generation services, and generators. The Power segment includes Gas Power and Power Portfolio. While Gas Power includes General Electric's gas lifecycle business (including Power Services and Gas Power Systems businesses), Power Portfolio comprises Steam Power Systems, GE Hitachi Nuclear and Power Conversion businesses.
- Aviation offers commercial jet engines and components, and aftermarket services.
- Healthcare provides technologies in patient monitoring, medical imaging, drug discovery, patient monitoring and others. Also, the segment provides biopharmaceutical manufacturing technologies.
- Renewable Energy provides offshore wind turbines, high-voltage equipment, blades for wind turbines (onshore and offshore), and other products and services.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ In the past three months, General Electric's shares have gained 21.3% compared with the industry's growth of 13.6%. In third-quarter 2020, the company's earnings surpassed estimates by 200% and sales beat the same by 1.4%. In the years ahead, growth in digital business, investments in innovation, efforts to reduce leverage and lowering exposure to the GE Capital business will likely be beneficial for General Electric. It is worth noting here that asset disposition in GE Capital amounted to \$4.6 billion in the year-to-date period (as revealed with the third quarter results). Assets (from continuing operations) were \$112.9 billion at the end of the third quarter. Also, GE Capital's debts have been reduced by \$3.6 billion. General Electric targets GE Capital's debt-to-equity to be less than 4X over the long term. For the near term, the company noted that necessary cash and cost-related measures are being taken to deal with the risks associated with the pandemic. It intends on preserving more than \$3 billion in cash and lower costs in excess of \$2 billion. Notably, nearly 75% of the benefits have been realized till the third quarter. For the fourth quarter, the company anticipates Industrial free cash flow to be \$2.5 billion or more, while the same is predicted to be positive in 2021.
- ▲ In a bid to become a high-tech industrial company, General Electric rolled out a business portfolio-restructuring program in June 2018. Per the program, the behemoth's core businesses will be Power, Aviation and Renewable Energy, while it will gradually exit all other businesses. The company divested GE Transportation to Wabtec in February 2019, while it completed the divestiture of the BioPharma business to Danaher Corporation in March 2020. Further, General Electric lost its controlling shareholding in Baker Hughes. In the third quarter of 2020, the company launched a program to fully dispose of its remaining stake in Baker Hughes. These actions will be valid in the coming three years. This divestment will help General Electric to focus on core businesses, better uses of capital, deleveraging and others. In addition, the company's reorganized Power segment (Gas Power and Power Portfolio) are proving beneficial. This July, the company divested its lighting business. The other party to the transaction was Savant Systems, Inc.
- ▲ General Electric is working diligently to improve its liquidity and manage its leverage. Exiting third-quarter 2020, the company's liquidity included \$39 billion of cash while had available credit of \$20 billion. Notably, it reduced its industrial debts by \$8.1 billion year to date, including \$0.3 billion in the third quarter. Over the long term, the company aims at achieving net debt-to-EBITDA of less than 2.5X at Industrial.

Portfolio-restructuring program, leverage-reduction actions, a healthy liquidity position and cash and cost-related measures are likely to aid General Electric in the years ahead.

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### Reasons To Sell:

- ▼ In third-quarter 2020, General Electric's earnings slumped 60% from the previous-year's comparable quarter on sales decrease of 16.9%. Results were adversely impacted by the market-related challenges related to the coronavirus outbreak. Though the company is working on several counter measures, headwinds related to the pandemic are still concerning. In the past 30 days, the company's bottom-line estimates remained stable at earnings of 8 cents for the fourth quarter but decreased from 6 cents to 5 cents for the first quarter of 2021.
- ▼ In fourth-quarter 2020, General Electric expects the Healthcare segment to suffer from mid-single digit decline in orders for healthcare systems. On a geographical basis, healthcare systems' businesses will be weak in LATAM, India and the United States. For the Power segment, the company believes service orders will be down year on year in 2020. For the Aviation segment, it believes lower installation of commercial engines and a weak commercial aftermarket business might hurt performances.
- ▼ In the third quarter, GE Capital's revenues were down 19.8% year over year and it witnessed a loss of \$52 million. The segment's GECAS businesses were adversely impacted by the pandemic. The company expects the market decline to hurt its GECAS operations, while measures to deal with the difficult situation might prove beneficial. In addition, geographical diversification reflects General Electric's flourishing business. However, the diversity exposes the company to risks arising from geopolitical issues and an unfavorable foreign currency movement. In the third quarter of 2020, forex woes dented the company's Industrial revenues by \$15 million, while the same had an adverse impact of \$461 million in the first three quarters of 2020. Such lingering woes may hurt results in the days to come.

Adverse impacts of the pandemic on Industrial and GE Capital businesses are concerning for General Electric. Also, forex woes might be dragging in the quarters ahead.

## Last Earnings Report

### General Electric Q3 Earnings Top Estimates, Decline Y/Y

General Electric reported better-than-expected results for the third quarter of 2020, with earnings surpassing the Zacks Consensus Estimate by 200%. Also, its sales exceeded the consensus estimate by 1.4%.

In the reported quarter, the industrial conglomerate's adjusted earnings were 6 cents per share, surpassing the Zacks Consensus Estimate of a loss of 6 cents. However, the bottom line decreased 60% from the year-ago quarter's earnings of 15 cents per share on weak sales generation, partially offset by lower costs and expenses.

### Revenue Details

In the quarter under review, General Electric's consolidated revenues were \$19,417 million, reflecting a year-over-year decline of 16.9%. Weakness in Industrial and GE Capital's performances hurt the quarterly results.

However, the company's revenues surpassed the Zacks Consensus Estimate of \$19,149 million.

On a segmental basis, its Industrial revenues declined 16.7% year over year to \$17,918 million. Also, GE Capital's revenues were down 19.8% year over year to \$1,681 million.

For the Industrial segment, organic revenues in the quarter decreased 12.4% from the year-ago quarter to \$17,877 million. Industrial orders declined 31% year over year to \$15.5 billion. Organically, orders were down 28%. Backlog at the end of the third quarter was at \$383.6 billion.

Performance of the Industrial segment's components business is discussed below:

Aviation revenues decreased 39.3% year over year to \$4,919 million and orders fell 54%. Notably, third-quarter shipment of LEAP engines totaled 172, reflecting a decline of 283 from the year-ago quarter.

Healthcare revenues in the reported quarter totaled \$4,565 million, decreasing 7.3% year over year. The segment's orders dipped 20%. On an organic basis, revenues declined 5% year over year.

Renewable Energy revenues totaled \$4,525 million, up 2.3% year over year. Its orders declined 21% in the reported quarter. Organically, the segment's sales were up 4% year over year, while orders were down 18%.

The Power segment's revenues were up 2.5% year over year to \$4,025 million. The segment's orders decreased 12% on a year-over-year basis. Notably, Gas Power revenues increased 7.6% year over year to \$2,940 million and that for the Power Portfolio was down 9.1% year over year to \$1,085 million.

### Margin Profile

In the quarter under review, General Electric's cost of sales declined 11.8% year over year to \$15,275 million. It represented 78.7% of the quarter's revenues versus 74.2% in the year-ago quarter. Selling, general and administrative expenses in the quarter decreased 2% year over year to \$3,227 million. It was 16.6% of the quarter's revenues versus 14.1% in the year-ago quarter.

The Industrial segment's adjusted operating profit in the quarter was \$1,001 million, down 53.4% year over year. Margin in the quarter was 5.6% versus 10% in the third quarter of 2019. On a reported basis, the Power segment recorded operating profit of \$150 million against a loss of \$144 million in the year-ago quarter, while Renewable Energy's earnings were \$5 million compared with a loss of \$98 million in third-quarter 2019. The Aviation segment's earnings were \$356 million, down 79% year over year. The Healthcare segment's profits declined 21% year over year to \$765 million.

The GE Capital segment witnessed a loss of \$52 million compared with a loss of \$645 million in the year-ago quarter.

Interest and other financial charges decreased 41.7% year over year to \$745 million.

### Balance Sheet and Cash Flow

Exiting the third quarter of 2020, General Electric had cash and cash equivalents of \$86 billion, down 2.8% from \$88.5 billion recorded at the end of the previous quarter. Borrowings were \$79.5 billion, down 2.9% from \$81.9 billion at the end of the second quarter.

The company noted that it reduced Industrial debts by \$8.1 billion and GE Capital debt by \$3.6 billion in the year-to-date period. Non-GAAP free cash flow for GE Industrial totaled \$514 million in the third quarter, down 20.9% year over year.

### Restructuring

In June 2018, General Electric communicated plans to transform into a high-tech industrial company — focused on Aviation, Power and Renewable Energy.

In sync with its plans, the company completed the sale of its transportation business to Westinghouse Air Brake Technologies Corporation in the first quarter of 2019. Further, General Electric completed the divestment of the BioPharma business to Danaher Corporation in March 2020.

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	1.40%
EPS Surprise	200.00%
Quarterly EPS	0.06
Annual EPS (TTM)	0.17

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Further, General Electric lost its controlling shareholding in Baker Hughes Company. In addition, the company started a program in the third quarter to fully dispose of its remaining stake in Baker Hughes. These actions will be valid in the coming three years. The divestment of this non-core possession will likely help General Electric to focus on core businesses, better uses of capital, deleveraging and others. Notably, proceeds of \$0.4 billion from these actions were recorded by the company in October 2020.

Efforts are on track to reduce the exposure to the GE Capital business. Asset disposition has amounted to \$4.6 billion in the year-to-date period.

### **Outlook**

In the quarters ahead, General Electric is committed toward strengthening its businesses, reducing leverage and making investments in innovation.

For 2020, the company expects cash preservation of more than \$3 billion and operational cash out of more than \$2 billion (roughly 75% already realized). Industrial free cash flow is expected to be \$2.5 billion or in excess in the fourth quarter of 2020, while the same is anticipated to be positive in 2021.

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## Recent News

On **Nov 3, 2020**, General Electric opened a new aeroderivative turbine center in Australia. This Perth-based facility also has a tooling store. Both the turbine center and the tooling store will help the company provide effective support to operators of aeroderivative power plant in Australia.

On **Oct 26**, General Electric announced that its renewable steam power technology will be used in Australia-based waste-to-energy plant.

On **Oct 26**, General Electric paid a quarterly cash dividend of a penny per share to shareholders on record as of Sep 28, 2020.

On **Oct 23**, General Electric received a contract to provide parts and services to Power Generation Joint Stock Corporation 3's owned Phu My 2.1 and 4 power plants.

On **Oct 22**, GE Healthcare received a contract, worth \$11 million, to supply its 76 units of ultrasound systems to St. Luke's University Health Network.

On **Oct 19**, a preliminary agreement has been reached between GE Capital Aviation Services and PIMCO to form a platform for aviation leasing. This platform is expected to provide financings worth \$3 billion for aircraft assets.

On **Oct 15**, GE Renewable Energy secured a contract from SB Energy. Per the deal, the company will deliver and commission 121 units of 2.7-132 onshore wind turbines for the Pritam Nagar wind farm, located in Madhya Pradesh, India.

On **Oct 14**, GE Digital unveiled its solution for power generator called Operations Performance Management. This solution is powered with Process Digital Twin technology and helps in improving performances of generation portfolios, sites and plants.

On **Oct 13, 2020**, the Grid Solutions business of GE Renewable Energy announced the completion of upgrade measures of control system and valves on the DoIWin3 grid connection. On the same day, General Electric secured a contract from Long Ridge Energy Terminal to help the latter use carbon-free hydrogen at its 485 MW power plant.

On **Oct 8, 2020**, the Grid Solutions business of GE Renewable Energy received a contract from the Millennium Challenge Corporation to work on the Benin-based substation project. The contract was valued at \$47 million. On the same day, the Grid Software Solutions business of GE Digital provided its Load Frequency Control solution to Finland's electricity transmission grid operator, Fingrid.

On **Oct 1, 2020**, General Electric announced to have completed upgrading 9E gas turbines, situated at Italy-based heat and power plant, with its Axial Fuel Staging ("AFS") technology.

On **Sep 21, 2020**, GE Renewable Energy agreed to supply 187 turbines to Invenegy. Per the deal, the turbines to be supplied include 30 units of 2.X-127 turbines, six units of 2.X-116 turbines, 54 units of 2.X-127 turbines and 97 units of 2.X-127 turbines.

On **Sep 21, 2020**, General Electric communicated its plans to exit from the new build coal power business and concentrate on the rest of the power generation and renewable energy businesses. The company wishes to carry on the exit process — which is currently subject to consultation requirements — through job adjustments, divestitures, consideration for subsidiaries (publicly-held) and site closures. Beside this, it will ensure fulfilling its commitments to existing customers by helping them run their plants effectively.

On the same day, GE Renewable Energy announced that it will supply each of Dogger Bank's two phases — Dogger Bank A & B — with 95 units of Haliade-X 13 MW winds turbines. In addition to the supply contract, Renewable Energy will be providing operational support to the turbines for five years per the terms of the Services and Warranty agreement.

On **Sep 17, 2020**, GE Renewable Energy secured a contract from Megha Engineering and Infrastructure Limited. Per the deal, the company will deliver and commission 500MW of turbine capacity for the Kundah hydropower plant, located in Tamil Nadu, India.

Also, GE Renewable Energy entered into a contract with BKK, an energy company in Norway. Per the five-year license deal, the company will provide BKK with its digital asset performance management solutions, which will be deployed across 30 hydropower plants.

On **Sep 16, 2020**, General Electric's Chief Executive Officer, Larry Culp provided an update on the company's free cash flow expectations at a Morgan Stanley Laguna Conference.

For the second half of 2020, the conglomerate anticipates generating positive free cash flow. In addition, it expects its performance during the second half of this year to build up the base for generating positive cash flow in 2021 as well.

This apart, General Electric's business arm GE Aviation signed a long-term component-manufacturing deal for the LEAP engine program. The other party to the deal is Barnes Group Inc.'s business arm Barnes Aerospace.

On **Sep 14, 2020**, GE Renewable Energy received a contract to supply onshore wind turbines in Morocco. Notably, the contract has been extended by EDF RE and Mitsui & Co., Ltd. The company will supply 27 units of 3.2-85 onshore wind turbines to the Taza onshore wind farm

On **Sep 10, 2020**, GE Renewable Energy clinched an onshore wind contract from PÜSPÖK Group. This marks General Electric's first such contract in Austria in the past few years. The deal requires the company to deliver 30 of its advanced Cypress turbines, capable of operating at 5.5 MW.

On **Sep 8, 2020**, GE Power clinched a contract to deliver power generation equipment for the Zainskaya State District Power Plant's expansionary project in Zainsk, Tatarstan, in Russia.

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The company will be responsible for providing its state of the art gas turbine 9HA.02 and a STF-D650 steam turbine. Apart from these, the company will deliver H78 and A78 generators as well as RH Heat Recovery Steam Generator.

On **Sep 4, 2020**, General Electric announced that it has secured an equipment contract for Taiwan Power Company's Hsinta and Taichung power plant projects.

On **Sep 3, 2020**, GE Renewable Energy received two 30 MW deals for the delivery of an overall 12 units of its 5MW-158 Cypress wind turbines. This will support construction of the Quoc Vinh Soc Trang and Lac Hoa Soc Trang wind farms in the Mekong Delta, Vietnam.

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## Valuation

General Electric's shares have declined 27.5% in the year-to-date period and 28.7% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have increased 5% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have moved up 7.9%.

The S&P 500 index has moved up 9.4% year to date and increased 14.3% in the past year.

The stock is currently trading at 33.92x forward 12-month earnings per share, which compares to 26.64x for both the Zacks sub-industry and the Zacks sector as well as 22.24x for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.55x and as low as 9.01x, with a 5-year median of 16.56x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$8.50 price target reflects 35.64x forward 12-month earnings per share.

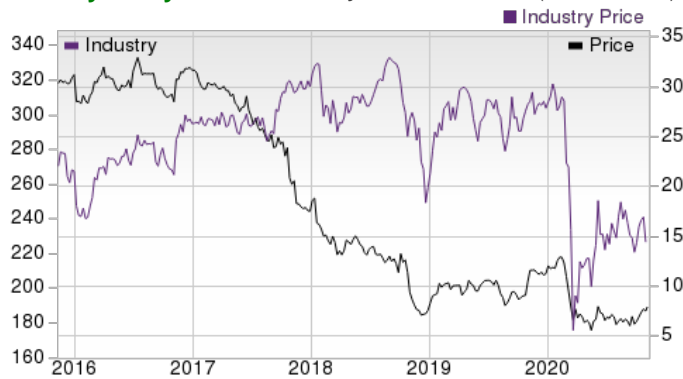
The table below shows summary valuation data for GE.

Valuation Multiples - GE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.92	26.64	26.64	22.24
	5-Year High	46.55	26.64	26.64	23.47
	5-Year Low	9.01	15.76	15.76	15.27
	5-Year Median	16.56	18.51	18.51	17.72
P/S F12M	Current	0.88	4.42	4.42	4.12
	5-Year High	2.44	4.42	4.42	4.3
	5-Year Low	0.49	2.29	2.29	3.17
	5-Year Median	1.06	3.06	3.06	3.67

As of 11/06/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 33% (166 out of 249)



## Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
ITT Inc. (ITT)	Outperform	2
Emerson Electric Co. (EMR)	Neutral	3
Flowserve Corporation (FLS)	Neutral	2
Honeywell International Inc. (HON)	Neutral	3
Macquarie Infrastructure Company (MIC)	Neutral	3
3M Company (MMM)	Neutral	2
Carlisle Companies Incorporated (CSL)	Underperform	4

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

Industry Comparison Industry: Diversified Operations				Industry Peers		
	GE	X Industry	S&P 500	DHR	EMR	HON
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	D	B	F
Market Cap	70.87 B	4.09 B	23.64 B	174.37 B	41.90 B	129.30 B
# of Analysts	7	3	13	8	9	10
Dividend Yield	0.49%	1.22%	1.56%	0.29%	2.85%	1.95%
Value Score	B	-	-	F	B	C
Cash/Price	1.32	0.30	0.07	0.03	0.06	0.13
EV/EBITDA	5.27	9.74	13.75	42.09	11.88	14.66
PEG F1	NA	3.02	2.71	3.16	2.11	3.42
P/B	2.04	1.10	3.33	5.02	4.96	7.06
P/CF	6.27	6.95	13.32	39.50	14.19	18.63
P/E F1	NA	18.46	21.18	40.77	20.34	26.27
P/S TTM	0.84	1.12	2.63	8.55	2.50	3.89
Earnings Yield	-0.12%	4.77%	4.53%	2.45%	4.92%	3.80%
Debt/Equity	2.10	0.72	0.70	0.63	0.75	0.97
Cash Flow (\$/share)	1.29	2.28	6.92	6.21	4.94	9.89
Growth Score	D	-	-	C	B	D
Historical EPS Growth (3-5 Years)	-30.57%	10.73%	10.07%	3.60%	4.48%	6.09%
Projected EPS Growth (F1/F0)	-101.76%	-7.14%	0.26%	293.46%	1,176.56%	735.00%
Current Cash Flow Growth	-8.00%	6.22%	5.29%	1.84%	-5.22%	-1.43%
Historical Cash Flow Growth (3-5 Years)	-12.27%	7.02%	8.38%	5.87%	-0.68%	5.69%
Current Ratio	2.31	1.73	1.38	2.08	1.52	1.64
Debt/Capital	67.73%	41.71%	41.97%	36.48%	42.82%	49.14%
Net Margin	4.52%	3.78%	10.44%	18.05%	11.71%	14.99%
Return on Equity	5.37%	10.37%	14.96%	12.94%	25.98%	27.69%
Sales/Assets	0.32	0.72	0.50	0.30	0.77	0.55
Projected Sales Growth (F1/F0)	-25.42%	-0.36%	0.00%	9.69%	1.95%	-12.54%
Momentum Score	A	-	-	D	B	D
Daily Price Change	1.25%	0.00%	-0.23%	2.13%	-0.50%	0.54%
1-Week Price Change	-2.75%	-3.76%	-5.63%	-1.34%	-7.47%	-6.03%
4-Week Price Change	21.65%	1.63%	0.00%	11.21%	1.21%	6.04%
12-Week Price Change	22.58%	-1.71%	2.80%	18.47%	-0.11%	15.91%
52-Week Price Change	-28.34%	-17.22%	2.05%	82.50%	-4.97%	2.57%
20-Day Average Volume (Shares)	116,244,304	54,678	1,955,785	2,429,313	2,945,448	2,903,788
EPS F1 Estimate 1-Week Change	-22.22%	0.00%	0.00%	0.00%	0.04%	2.86%
EPS F1 Estimate 4-Week Change	31.25%	0.27%	1.27%	9.90%	0.07%	1.90%
EPS F1 Estimate 12-Week Change	42.86%	4.32%	3.13%	10.99%	0.07%	1.56%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.51%	14.59%	6.62%	4.26%

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

Value Score	<b>B</b>
Growth Score	<b>D</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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Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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