

## Graco Inc. (GGG)

**\$72.90** (As of 04/02/21)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

## Summary

Graco seems well-placed to gain from its exposure in new markets, global expansion, buyouts and end-user conversion in the long term. In the near term, an efficient management team, product innovations, solid customer base and a focus on capacity expansion might help. Rewarding shareholders is likely to be beneficial as well. For the first half of 2021, it anticipates solid demand in the Contractor segment, while expects market challenges to impact the Industrial and Process segments. Notably, the company refrained from providing any earnings or sales projections for the year. Also, high costs and expenses might be concerning for margins and profitability. In the year-to-date period, Graco's shares have underperformed the industry. In addition, the company's stock currently looks overvalued compared with the industry.

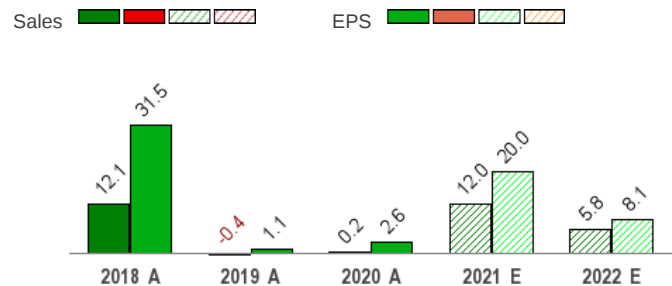
## Price, Consensus & Surprise



## Data Overview

|                                |                                           |
|--------------------------------|-------------------------------------------|
| 52-Week High-Low               | <b>\$76.98 - \$41.79</b>                  |
| 20-Day Average Volume (Shares) | <b>1,141,788</b>                          |
| Market Cap                     | <b>\$12.3 B</b>                           |
| Year-To-Date Price Change      | <b>0.8%</b>                               |
| Beta                           | <b>0.58</b>                               |
| Dividend / Dividend Yield      | <b>\$0.75 / 1.0%</b>                      |
| Industry                       | <b>Manufacturing - General Industrial</b> |
| Zacks Industry Rank            | <b>Bottom 35% (164 out of 253)</b>        |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>19.6%</b>      |
| Last Sales Surprise           | <b>9.8%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.1%</b>       |
| Expected Report Date          | <b>04/21/2021</b> |
| Earnings ESP                  | <b>-0.3%</b>      |
| P/E TTM                       | <b>37.4</b>       |
| P/E F1                        | <b>31.2</b>       |
| PEG F1                        | <b>2.7</b>        |
| P/S TTM                       | <b>7.5</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | 446 E | 453 E | 474 E | 505 E | 1,955 E |
| 2021 | 431 E | 451 E | 460 E | 486 E | 1,848 E |
| 2020 | 374 A | 367 A | 439 A | 470 A | 1,650 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.56 E | \$0.60 E | \$0.67 E | \$0.71 E | \$2.53 E |
| 2021 | \$0.50 E | \$0.55 E | \$0.61 E | \$0.64 E | \$2.34 E |
| 2020 | \$0.38 A | \$0.37 A | \$0.59 A | \$0.61 A | \$1.95 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 04/02/2021. The report's text and the analyst-provided price target are as of 04/05/2021.

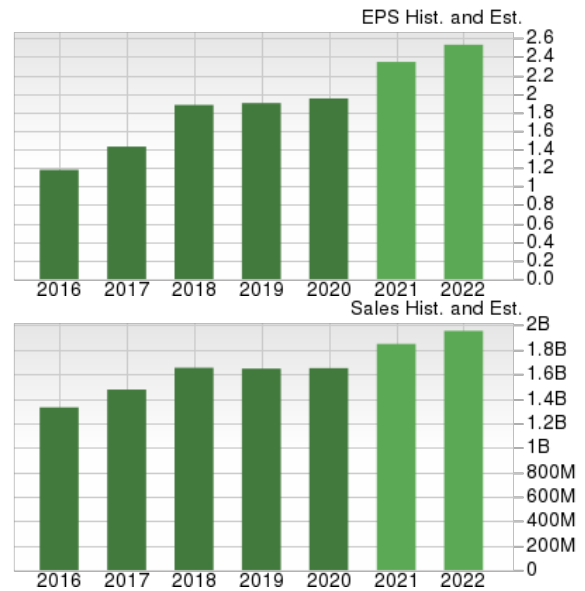
## Overview

Graco Inc. manufactures, designs and sells equipment and systems used to measure, move, control, spray and dispense fluid as well as powder materials. This Minneapolis, MN-based company was founded in 1926.

The products offered by the company are produced in the United States, Italy, the U.K., Belgium, Switzerland, China and Romania. The products are mainly sold through the company's authorized distribution centers.

Graco reports its results in terms of three operating segments:

- **Industrial** (45.2% of total revenues in the fourth quarter of 2020) segment includes Applied Fluid Technologies and Industrial Products divisions. The company provides pre-engineered and equipment packages for paints, sealants, coatings, adhesives and other fluids under this segment.
- **Process** (17.8% of total revenues in the fourth quarter of 2020) segment includes Oil and Natural Gas, Process and Lubrication divisions. The company provides valves, pumps, accessories, and meters to dispense and move chemicals, wastewater, oil and natural gas, petroleum, lubricants, food and other fluids under this segment.
- **Contractor** (37% of total revenues in the fourth quarter of 2020) segment provides sprayers. These sprayers are used to paint structures like walls and other product models that can be used by professional painting contractors as well as homeowner.



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## Reasons To Buy:

- ▲ In fourth-quarter 2020, Graco's earnings and sales surpassed estimates by 19.61% and 9.78%, respectively. Compared with the year-ago quarter, the bottom line grew 27.1% on healthy sales generation and improved margins. In the quarters ahead, the company will likely benefit from its operations running globally, efficient management team, sound customer base and focus on keeping the production lines active. Also, a solid demand in the Contractor segment is anticipated to be advantageous. Further, a healthy liquidity position can be advantageous for the company. Exiting fourth-quarter 2020, it had cash and cash equivalents of \$378.9 million and its long-term debts were just \$150 million. Times interest earned at 34.2X at the end of the fourth quarter suggested improvement from the previous quarter and 2019-end. Compared with the industry's 42.9%, the company's long-term debt-to-capital is favorable at 10.5%.
- ▲ The company invests in product innovation and capacity expansion. It plans to invest \$115 million to roll out machinery and equipment in 2021, including \$80 million for the expansion of facilities. As for innovation, the introduction of hydraulic bolt torquing pump, high-production GrindLazer drum scarifiers — DC1520 E, DC1525 P and DC1538 G, SaniSpray HP airless sprayers and other products during 2020 are worth mentioning. Also, the company unveiled SaniSpray HP 20 electrostatic sprayer and Intelligent Paint Kitchen in January 2021. In the long term, the company anticipates gaining from the exposure in new markets, product development, global expansion, buyouts and end-user conversion. It targets achieving revenue growth of 10% (CAGR) and earnings improvement of 12% (CAGR) in the long run.
- ▲ Graco tries to provide higher remuneration to shareholders. In 2020, the company distributed dividends worth \$117 million to its shareholders, suggesting an increase of 9.9% from the previous year. Share repurchases during the year amounted to \$102.1 million, up from \$9.5 million bought back in 2019. Further, in December 2020, the company announced a 7.1% hike in its quarterly dividend rate. In addition, geographical diversification is reflective of a flourishing business of the company. In fourth-quarter 2020, the company's sales from the Americas and the Asia Pacific expanded 15% and 22%, respectively. Also, geographical diversity has exposed Graco to the impacts of movements in foreign currencies and geopolitical matters. Favorable foreign currency translation boosted the company's sales by 2% in the fourth quarter of 2020. In 2021, it anticipates favorable foreign currency movements to boost sales by 2% and earnings by 6%.

Investments in capacity expansion and innovation as well as solid shareholder-friendly policies will likely aid Graco, going forward. Also, favorable impacts of foreign currency translation will be beneficial.

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## Reasons To Sell:

- ▼ In the year-to-date period, Graco's shares have gained 0.8% compared with the industry's growth of 87.7%. Also, the company's stock currently looks overvalued compared with the industry on a Price (P)/Earnings (E) (trailing 12 months - TTM) basis, with respective tallies of 37.39X and 35.02X. Also, the company's P/E TTM is higher than the industry's year-to-date highest level of 35.02X. The company expects challenges in multiple end-markets to persist in the first half of 2021. It also refrained from providing any earnings or sales projections for the year.
- ▼ In the fourth quarter of 2020, Graco's performance in the Process segment was disappointing. Its sales in the quarter declined 6.1% from the year-ago quarter or 10% on an organic basis. The segment suffered from weakness in oil and gas, vehicle lubrication and other markets. In 2021, end market challenges will likely impact the Process segment's performance in the first half of 2021. Notably, the same headwinds are expected to impact the Industrial segment's performance as well in the first half.
- ▼ High costs and expenses might be concerning for Graco, as uncontrolled spending might hurt profitability. In fourth-quarter 2020, cost of sales in the quarter increased 11.1% year over year, while operating expenses grew 7.1% from the year-ago quarter. For 2021, the company expects unallocated corporate expenses of \$30 million.

End-market related challenges, especially for the Industrial and Process segments, are likely to be concerning for Graco in the first half of 2021. Also, high and expenses might ail.

## Last Earnings Report

### Graco Earnings Beat Estimates in Q4 on Solid Sales

Graco reported better-than-expected results for fourth-quarter 2020, with earnings and sales surpassing respective estimates by 19.61% and 9.78%. Notably, this was the third earnings beat in a row for the company.

Adjusted earnings in the quarter under review were 61 cents per share, surpassing the Zacks Consensus Estimate of 51 cents. On a year-over-year basis, earnings increased 27.1%, driven by healthy sales generation and improved margins.

For 2020, the company's adjusted earnings were \$1.95 per share, up 2.6% from the previous year.

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Jan 25, 2021 |
| Sales Surprise   | 9.78%        |
| EPS Surprise     | 19.61%       |
| Quarterly EPS    | 0.61         |
| Annual EPS (TTM) | 1.95         |

### Revenue Details

In the reported quarter, the company's net sales were \$470.3 million, suggesting a 14.1% growth from the year-ago quarter. Volume and price boosted sales by 11%, acquisition added 1%, and movements in foreign currencies had a positive impact of 2%.

Also, the company's net sales surpassed the Zacks Consensus Estimate of \$428 million.

On a geographical basis, quarterly sales generated from the Americas grew 15% to \$267 million. In the Europe, Middle East and Africa region, sales were \$120 million, increasing 7% year over year (or grew 1% at a constant-currency rate), while sales from the Asia Pacific were \$83 million, increasing 22% year over year (or up 17% at a constant-currency rate).

The company reports revenues under three segments. A brief discussion of the quarterly results is provided below:

The **Industrial** segment's revenues totaled \$212.9 million, reflecting a 9.3% increase from the year-ago quarter. Volume and price had a positive impact of 6% on sales, while movements in foreign currencies benefitted by 3%. The segment's sales accounted for 45.2% of the company's net revenues in the quarter.

The **Process** segment's sales of \$83.5 million were down 6.1% from the year-ago quarter. Acquisitions contributed 3% to sales growth, while volume and price had an adverse impact of 10% in the quarter. Movements in foreign currencies increased sales by 1%. The segment's sales accounted for 17.8% of net revenues in the reported quarter.

The **Contractor** segment's revenues increased 35.2% year over year to \$173.9 million. The improvement was driven by a 33% contribution from volume and price as well as movements in foreign currencies boosted it by 2%. The segment's sales accounted for 37% of net revenues in the reported quarter.

The company noted that demand was strong from home center and professional paint channels.

In 2020, the company's net sales were \$1,650.1 million, increasing 0.2% from the previous quarter.

### Margin Profile

In the reported quarter, Graco's cost of sales grew 11.1% year over year to \$225.5 million. It represented 48% of the quarter's net sales versus 49.2% in the year-ago quarter. Gross profit increased 16.9% year over year to \$244.8 million, while margin was up 130 basis points (bps) to 52.1%. The margin improvement was triggered by sales volume improvement in the Industrial segment, solid price realization and forex tailwinds. However, channel and product mix were spoilsports in the Contractor segment.

Operating expenses (including product development; selling, marketing and distribution; and general and administrative expenses) increased 7.1% year over year to \$112.7 million. It represented 24% of net sales in the reported quarter versus 25.5% in the year-ago quarter.

Adjusted operating profit increased 26.8% year over year to \$132.1 million on the back of forex tailwinds and a rise in volumes. Operating margin, adjusted, increased 280 bps year over year to 28.1%.

Interest expenses in the reported quarter increased 1.8% year over year to \$2.6 million. Effective tax rate (adjusted) in the quarter was 18.1%, down 40 bps from the prior-year quarter.

### Balance Sheet & Cash Flow

Exiting the fourth quarter, Graco had cash and cash equivalents of \$378.9 million, reflecting a 10.8% decrease from \$424.7 million recorded in the last reported quarter. Long-term debt slipped 45.5% sequentially at \$150 million.

In 2020, the company generated net cash of \$394 million from operating activities, reflecting a decline of 5.9% from the previous year. Capital spent on the addition of property, plant and equipment totaled \$71.3 million versus \$128 million in 2019.

The company distributed dividends worth \$117 million and repurchased shares worth \$102.1 million during 2020.

### Outlook

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Graco expects to witness challenges in multiple end markets in the first half of 2021. The company mentioned that conditions will be solid for the Contractor segment in the year.

For 2021, it refrained from providing sales or earnings projections. On the contrary, it did mention that capital expenditure for the year will be \$115 million (including \$80 million for the expansion of facilities).

Corporate expenses (unallocated) are estimated to be \$30 million. Impacts of movements in foreign currencies are expected to boost sales and earnings by 2% and 6%, respectively, in the year.

Effective tax rate for the year is predicted to be 18-19%.

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## Recent News

On **Feb 12, 2021**, Graco's board of directors approved payment of a quarterly cash dividend of 18.75 cents per share to shareholders on record as of Apr 19, 2021. The payment will be made on May 5.

On **Jan 21, 2021**, Graco introduced SaniSpray HP 20 electrostatic sprayer. This product is a cordless and electrostatic airless spraying system considered suitable for disinfecting works.

On **Jan 18, 2021**, Graco unveiled Intelligent Paint Kitchen — comprising actuators, sensors and control modules. This system helps in controlling remotely circulation system and industrial paint supply effectively.

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## Valuation

Graco shares are up 0.8% in the year-to-date period, but increased 56.3% in the trailing 12-month period. Stocks in the Zacks sub-industry have increased 87.7% in the year-to-date period while the Zacks Industrial Products sector is up 32.7%. In a year, the Zacks sub-industry grew 198.7%, while the sector increased 113.3%.

The S&P 500 index has moved up 7.4% in the year-to-date period and increased 53.6% in the past year.

The stock is currently trading at 30.47X forward 12-month earnings per share, which compares to 23.52X for the Zacks sub-industry, 22.94X for the Zacks sector and 22.67X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 37.29x and as low as 19.07x, with a 5-year median of 24.62x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$77 price target reflects 32x forward 12-month earnings per share.

The table below shows summary valuation data for GGG.

| Valuation Multiples - GGG |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 30.47 | 23.52        | 22.94  | 22.67   |
|                           | 5-Year High   | 37.29 | 27.3         | 23.02  | 23.83   |
|                           | 5-Year Low    | 19.07 | 15.57        | 12.69  | 15.3    |
|                           | 5-Year Median | 24.62 | 20.28        | 18.09  | 17.95   |
| P/S F12M                  | Current       | 6.56  | 10.55        | 4.63   | 4.64    |
|                           | 5-Year High   | 7.42  | 10.55        | 4.63   | 4.64    |
|                           | 5-Year Low    | 2.86  | 3.28         | 1.89   | 3.21    |
|                           | 5-Year Median | 4.59  | 4.29         | 2.48   | 3.7     |

As of 04/01/2021

Source: Zacks Investment Research

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



## Top Peers

| Company (Ticker)             | Rec     | Rank |
|------------------------------|---------|------|
| Colfax Corporation (CFX)     | Neutral | 3    |
| Carlyle Group Inc. (CG)      | Neutral | 3    |
| Flowserve Corporation (FLS)  | Neutral | 4    |
| IDEX Corporation (IEX)       | Neutral | 3    |
| Ingersoll Rand Inc. (IR)     | Neutral | 3    |
| ITT Inc. (ITT)               | Neutral | 3    |
| MUELLER WATER PRODUCTS (MWA) | Neutral | 3    |
| Nordson Corporation (NDSN)   | Neutral | 3    |

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

| Industry Comparison Industry: Manufacturing - General Industrial |           |            |           | Industry Peers |         |         |
|------------------------------------------------------------------|-----------|------------|-----------|----------------|---------|---------|
|                                                                  | GGG       | X Industry | S&P 500   | CFX            | IEX     | NDSN    |
| Zacks Recommendation (Long Term)                                 | Neutral   | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                                          | 3         | -          | -         | 3              | 3       | 3       |
| VGM Score                                                        | B         | -          | -         | B              | C       | B       |
| Market Cap                                                       | 12.31 B   | 2.32 B     | 29.69 B   | 5.26 B         | 16.11 B | 11.76 B |
| # of Analysts                                                    | 8         | 3          | 13        | 10             | 6       | 7       |
| Dividend Yield                                                   | 1.03%     | 0.00%      | 1.34%     | 0.00%          | 0.94%   | 0.77%   |
| Value Score                                                      | D         | -          | -         | B              | D       | D       |
| Cash/Price                                                       | 0.03      | 0.08       | 0.06      | 0.02           | 0.07    | 0.02    |
| EV/EBITDA                                                        | 27.39     | 17.09      | 16.59     | 18.03          | 26.87   | 28.02   |
| PEG F1                                                           | 2.73      | 2.28       | 2.35      | 1.00           | 3.60    | 2.35    |
| P/B                                                              | 9.58      | 2.85       | 3.95      | 1.46           | 6.33    | 6.33    |
| P/CF                                                             | 31.51     | 15.83      | 16.66     | 11.94          | 33.36   | 27.08   |
| P/E F1                                                           | 31.38     | 25.39      | 21.87     | 21.22          | 36.05   | 30.54   |
| P/S TTM                                                          | 7.46      | 1.94       | 3.39      | 1.71           | 6.85    | 5.46    |
| Earnings Yield                                                   | 3.21%     | 3.75%      | 4.49%     | 4.71%          | 2.78%   | 3.28%   |
| Debt/Equity                                                      | 0.12      | 0.45       | 0.66      | 0.61           | 0.41    | 0.53    |
| Cash Flow (\$/share)                                             | 2.31      | 2.31       | 6.78      | 3.71           | 6.36    | 7.47    |
| Growth Score                                                     | B         | -          | -         | D              | C       | A       |
| Historical EPS Growth (3-5 Years)                                | 12.17%    | 6.91%      | 9.39%     | 4.44%          | 11.02%  | NA      |
| Projected EPS Growth (F1/F0)                                     | 20.19%    | 29.11%     | 15.29%    | 49.36%         | 13.45%  | 20.93%  |
| Current Cash Flow Growth                                         | 4.32%     | -4.39%     | 0.44%     | -19.48%        | -7.79%  | -4.04%  |
| Historical Cash Flow Growth (3-5 Years)                          | 9.42%     | 7.43%      | 7.37%     | 4.41%          | 6.18%   | 8.87%   |
| Current Ratio                                                    | 3.19      | 1.99       | 1.39      | 1.68           | 4.15    | 2.86    |
| Debt/Capital                                                     | 10.46%    | 32.62%     | 41.26%    | 38.06%         | 29.13%  | 34.82%  |
| Net Margin                                                       | 20.03%    | 3.49%      | 10.59%    | 1.39%          | 16.06%  | 12.78%  |
| Return on Equity                                                 | 29.82%    | 9.17%      | 14.86%    | 5.62%          | 16.82%  | 19.65%  |
| Sales/Assets                                                     | 0.84      | 0.74       | 0.51      | 0.42           | 0.56    | 0.58    |
| Projected Sales Growth (F1/F0)                                   | 12.02%    | 5.95%      | 7.36%     | 15.57%         | 10.35%  | 5.31%   |
| Momentum Score                                                   | A         | -          | -         | A              | B       | B       |
| Daily Price Change                                               | 1.79%     | 0.00%      | 0.97%     | 1.26%          | 1.40%   | 1.86%   |
| 1-Week Price Change                                              | 3.47%     | -1.79%     | 2.12%     | 0.27%          | 3.72%   | 0.71%   |
| 4-Week Price Change                                              | 11.11%    | 3.38%      | 6.95%     | -7.18%         | 8.77%   | 5.70%   |
| 12-Week Price Change                                             | -2.75%    | 11.21%     | 8.07%     | 9.29%          | 1.93%   | -1.42%  |
| 52-Week Price Change                                             | 56.88%    | 95.69%     | 67.38%    | 144.14%        | 55.63%  | 58.23%  |
| 20-Day Average Volume (Shares)                                   | 1,141,788 | 93,484     | 2,332,946 | 2,208,278      | 430,031 | 235,223 |
| EPS F1 Estimate 1-Week Change                                    | 0.10%     | 0.00%      | 0.00%     | 0.67%          | 0.01%   | 0.39%   |
| EPS F1 Estimate 4-Week Change                                    | 0.10%     | 0.00%      | 0.00%     | -2.82%         | 0.01%   | 0.39%   |
| EPS F1 Estimate 12-Week Change                                   | 12.60%    | 5.04%      | 2.24%     | 0.88%          | 2.49%   | 2.48%   |
| EPS Q1 Estimate Monthly Change                                   | 0.61%     | 0.00%      | 0.00%     | -2.77%         | -0.84%  | -0.70%  |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>D</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>B</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

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.