

General Mills Inc.(GIS)

\$59.21 (As of 06/23/21)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

Summary

Shares of General Mills have lagged the industry in the past six months. Declines in away-from-home food demand have been putting pressure on the Convenience Stores & Foodservice unit. Apart from this, input cost inflation and high logistic costs are concerns. Nevertheless, the company is benefiting from burgeoning demand owing to pandemic-led increased at-home consumption. This was witnessed in third-quarter fiscal 2021, with sales, earnings and organic sales rising year over year. Management expects at-home food demand to remain high compared with pre-pandemic levels for the rest of fiscal 2021. Additionally, General Mills is on track with its three core priorities for fiscal 2021 as well as its Accelerate strategy. Also, savings from the Holistic Margin Management program is a breather. Further, gains from the Pet segment are noteworthy.

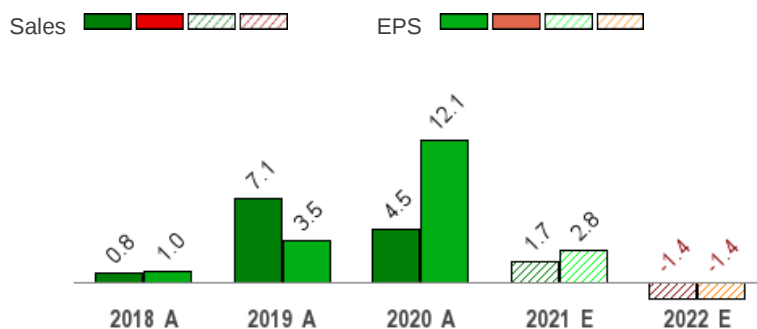
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$66.14 - \$53.96
20-Day Average Volume (Shares)	3,519,510
Market Cap	\$36.1 B
Year-To-Date Price Change	0.7%
Beta	0.56
Dividend / Dividend Yield	\$2.04 / 3.4%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 31% (173 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,272 E	4,699 E	4,420 E	4,238 E	17,671 E
2021	4,364 A	4,719 A	4,520 A	4,298 E	17,926 E
2020	4,003 A	4,421 A	4,180 A	5,023 A	17,627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.90 E	\$1.02 E	\$0.86 E	\$0.86 E	\$3.66 E
2021	\$1.00 A	\$1.06 A	\$0.82 A	\$0.83 E	\$3.71 E
2020	\$0.79 A	\$0.95 A	\$0.77 A	\$1.10 A	\$3.61 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	-2.4%
Last Sales Surprise	1.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	06/30/2021
Earnings ESP	0.0%
P/E TTM	14.9
P/E F1	16.2
PEG F1	2.3
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/23/2021. The report's text and the

analyst-provided price target are as of 06/24/2021.

Overview

Based in Minneapolis, MN, General Mills Inc. is a global manufacturer and marketer of branded consumer foods sold through retail stores. The company also serves the foodservice and commercial baking industries. Its principal product categories include ready-to-eat cereals, convenient meals, snacks (including grain, fruit and savory snacks, nutrition bars, and frozen hot snacks), yogurt, super-premium ice creams, baking mixes and ingredients, and refrigerated and frozen dough.

General Mills acquired Blue Buffalo in April 2018, and its consolidated results form part of a newly formed "Pet" segment following the first quarter of fiscal 2019. The company now reports under the following groups:

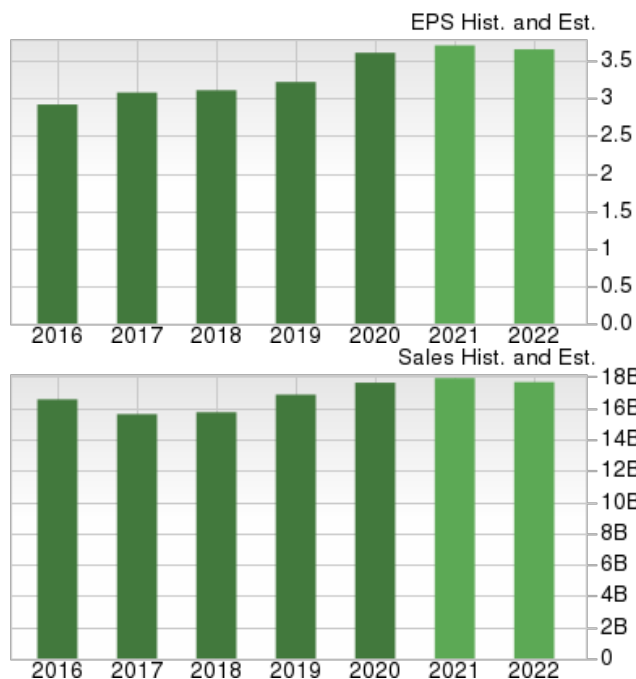
North America Retail (60% of total revenues in Q3): This segment consists of U.S. Meals & Baking and reflects business with wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar and discount chains operating throughout the United States. The product categories within the segment include ready-to-eat cereals, refrigerated yogurt, soup, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including meal kits, granola bars, and ready-to-eat cereal.

Convenience Stores & Foodservice (9% of total revenues in Q3): The segment sells ready-to-eat cereals, snacks, refrigerated yogurt, frozen meals, unbaked and fully baked frozen dough products and baking mixes to foodservice, convenience stores, vending, and supermarket bakeries.

Europe & Australia (10.7% of total revenues in Q3): This segment reflects retail and foodservice businesses in the greater Europe & Australia regions.

Asia & Latin America (10% of total revenues in Q32): This segment consists of retail and foodservice businesses in the greater Asia and South America regions.

Pet (10.3% of total revenues in Q3): This segment consists of the consolidated results of the recently acquired Blue Buffalo Pet Products.



Reasons To Buy:

▲ **Solid Q3 Results, Impressive Outlook:** General Mills delivered solid third-quarter fiscal 2021 results, with the top and the bottom line increasing year over year. Also, revenues beat the Zacks Consensus Estimate. Results continued to be driven by increased demand stemming from the pandemic-led higher at-home consumption. Further, the company made solid progress on its priorities for fiscal 2021 outlined earlier. It is also focused on its Accelerate strategy. Notably, adjusted earnings per share of 82 cents increased 6% on a constant-currency (cc) basis. The uptick can be attributed to improved adjusted operating profit and reduced net interest expenses. Net sales of \$4,520 million advanced 8% year over year and surpassed the Zacks Consensus Estimate of \$4,460 million. Also, organic sales increased 7% on the back of broad-based market share gains, thanks to increased at-home food demand amid the pandemic. Management expects to continue witnessing elevated at-home food demand when compared with pre-pandemic levels for the rest of fiscal 2021. This is likely to be backed by increased cooking and baking at home. The company is focused on capitalizing on these opportunities on the back of its strong brands, innovation and capacity to generate growth. Full-year organic sales are anticipated to rise nearly 3.5%, mainly due to solid year-to-date growth.

In third-quarter fiscal 2021, General Mills' gained from robust sales growth owing to coronavirus-led elevated at-home consumption.

▲ **Focus on Key Priorities:** General Mills is on track with its three core priorities for fiscal 2021, which include competing efficiently, operating with efficacy to fuel investments in brands and capabilities, as well as reducing leverage. The company made solid progress on each of these priorities in the third quarter of fiscal 2021. With regard to its competing efficiently priority, the company's brand strength helped it hold or increase market share in six out of its eight core markets in the first three quarters of fiscal 2021. Also, the company witnessed increased share in all of its global platforms. As part of boosting efficiency, the company is on track with its Holistic Margin Management (HMM) and Strategic Revenue Management (SRM) initiatives. Finally, General Mills progressed well with reducing its debt leverage in the third quarter of fiscal 2021 – ending the quarter with net debt to trailing 12-month adjusted EBITDA ratio of 2.8 times. Certainly, the company is now well placed for all capital allocation tools, including business investments, dividend growth, share repurchases as well as M&A activities. Apart from this, General Mills is focused on consumer-friendly innovations to drive growth.

▲ **Accelerate Strategy Holds Promise:** General Mills is focused on its recently unveiled Accelerate strategy. The strategy is outlined to aid the company in making choices of how to win and where to play with an aim to boost profitability while enhancing shareholder returns in the long run. Under how to win, General Mills is focused on four pillars that are designed to provide competitive advantage. These include brand building, undertaking innovations, unleashing scale and maintaining business strength.

Where to play principle is outlined to enhance the company's capabilities to generate profitability through geographic as well as product prioritization, along with portfolio restructuring. This includes prioritizing investment, investing in five Global Platforms, driving growth in Local Gem brands and reshaping portfolio. Moving on these lines, the company recently entered into a memorandum of understanding to offload 51% controlling interest in Yoplait S.A.S. to a renowned French dairy cooperative — Sodial. Management expects to conclude the deal by the end of calendar 2021. Notably, General Mills will get ownership of the Canadian Yoplait business as well as decreased royalty rate for use of Yoplait and Liberte brands in Canada and the United States, in exchange of the aforementioned transaction. Management earlier highlighted that the Accelerate strategy is likely to help General Mills in delivering mid- to high-single-digit adjusted earnings per share growth on a cc basis and generating robust shareholder returns. This is expected to be achieved through generating organic net sales growth between 2-3% and expanding margins to report mid-single-digit adjusted operating profit growth at cc. Also, converting at least 95% of adjusted net earnings into free cash flow and returning 80%-90% of free cash flow to shareholders via dividends as well as share buybacks is expected to contribute to the upside.

▲ **Gains From Blue Buffalo Aids Pet Segment:** General Mills acquired Blue Buffalo Pet Products, Inc. in fiscal 2018, which forms the company's Pet segment. Following this acquisition, the company became one of the leading players in the pet food arena. Blue Buffalo manufactures and markets wholesome natural pet food items and is contributing to General Mills' top line. In third-quarter fiscal 2021, revenues in the segment were up 14% year over year on the back of solid volume growth. Certainly, the company's investments in the Food, Drug and Mass (FDM) channel expansion are working well for the segment. On its third-quarter fiscal 2021 earnings call, management stated that Blue Buffalo has emerged as a successful omnichannel business in the past three years – thanks to brand strength and customer partnerships. Apart from this, the segment has been doing well amid the pandemic, as the rate of U.S. pet population growth has nearly doubled from the pre-pandemic level. Clearly, increased stay at-home trends have led to increased pet adoption rates. Moreover, consumers' increased shift toward premium quality natural food keeps Blue Buffalo well placed. Incidentally, General Mills' long-term strategy of driving sustained growth in the Pet unit goes in tandem with the company's broader Accelerate strategy.

▲ **Saving Initiatives:** General Mills has been pursuing many initiatives focused on improving operational efficiency to generate cost savings and support its key growth strategies. The company remains on track with its HMM plan, which generated savings in the company's North America Retail segment and the Pet segment in the first nine months of fiscal 2021. Management expects its solid HMM savings program to help it battle cost inflation. Further, its SRM program is likely to help drive net price realization in fiscal 2022.

▲ **Financial Profile:** General Mills long-term debt of \$9,766 million declined 10.8% sequentially at the end of the third quarter of fiscal 2021 (Feb 28, 2021). Moreover, the company generated \$2,207.9 million as net cash from operating activities in the first nine months of fiscal 2021. Notably, General Mills has a dividend payout of 50.8%, dividend yield of 3.3% and free cash flow yield of 8.5%. With an annual free cash flow return on investment of 16.4%, ahead of the industry's 7.3%; the dividend payment is likely to be sustainable. Apart from this, a strong balance sheet position encouraged the company resume share buybacks as of the fourth quarter.

Reasons To Sell:

▼ **COVID-19 Hurts Convenience Stores & Foodservice:** Sales in this segment have been declining for a while now. During third-quarter fiscal 2021, revenues in the segment declined 10% to \$417.1 million due to lower demand for away-from-home food amid the coronavirus outbreak. Reduced consumer traffic and other pandemic-induced restrictions have adversely impacted the segment's major away-from-home channels like restaurants, lodging as well as schools. Moreover, the segment's operating profit slumped 31% owing to reduced net sales and deleverage of fixed expenses in supply chain. Prior to this, sales in the segment declined 14% and 12% in the fiscal second and first quarter, respectively. We believe that, persistence of this trend can keep hurting the company's performance in the future. Shares of General Mills have gained 1.9% in the past six months compared with the industry's growth of 8.2%.

General Mills is witnessing elevated input costs. Moreover, weakness in Convenience Stores & Foodservice unit is a headwind.

▼ **Q4 View:** Though General Mills expects full-year organic sales to rise in fiscal 2021, it expects tough year-over-year sales comparisons in the fourth quarter of fiscal 2021. The tough comparison is expected on account of the initial surge in coronavirus-led at-home food demand as well as an extra month of Pet segment results.

▼ **High Costs:** General Mills is seeing elevated input costs, which affected its adjusted gross margin during the quarter under review. During the quarter, adjusted gross margin contracted 90 basis points (bps) to 33% due to elevated input costs, which includes input cost inflation, escalated logistic costs and costs associated with securing additional capacity. Also, greater media and capability investments hiked up SG&A expenses. Management expects elevated input cost inflation and escalated logistic costs for the second half of fiscal 2021, which is likely to dent the company's adjusted operating profit margin. This, in turn, is likely to negate strong year-to-date results and lead to in-line adjusted operating profit margin in fiscal 2021.

▼ **Intense Competition:** General Mills operates in the highly competitive food industry. The company mainly competed with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

▼ **Currency Volatility a Worry:** The company is exposed to volatile foreign currency translations, as it has a widespread global business and undertakes business expansion efforts frequently. Thus, volatility in exchange rates is a threat to the company's performance.

Last Earnings Report

General Mills Q3 Earnings Lag Estimates, Sales Grow Y/Y

General Mills came out with third-quarter fiscal 2021 results, wherein adjusted earnings per share of 82 cents grew 6% year over year on a constant-currency (cc) basis. However, the bottom line fell short of the Zacks Consensus Estimate of 84 cents. The year-over-year upside can be attributed to improved adjusted operating profit and reduced net interest expenses, somewhat negated by increased average diluted shares outstanding.

Net sales of \$4,520 million advanced 8% year over year and surpassed the Zacks Consensus Estimate of \$4,460 million. Also, organic sales increased 7% on the back of broad-based market share gains, thanks to increased at-home food demand amid the pandemic.

Adjusted gross margin contracted 90 basis points (bps) to 33% due to elevated input costs, which includes input cost inflation, escalated logistic costs and costs associated with securing additional capacity. These were somewhat made up by improved net price realization and mix. Adjusted operating profit at cc improved 5%, driven by increased adjusted gross profit dollars. These were somewhat offset by higher SG&A expenses, which include greater media and capability investments. Adjusted operating profit margin contracted 30 bps to 15.8%.

Segmental Performance

North America Retail: Revenues in the segment came in at \$2,726.8 million, up 9% year over year. The upside was driven by a favorable competitive performance amid coronavirus-induced increased demand for food at home. Organic sales also rose 9%.

Convenience Stores & Foodservice: Revenues declined 10% to \$417.1 million due to lower demand for away-from-home food amid the coronavirus outbreak. Reduced consumer traffic and other pandemic-induced restrictions adversely impacted the segment's major away-from-home channels like restaurants, lodging and schools.

Europe & Australia: The segment's revenues rose 15% to \$484.2 million, including favorable currency impacts of 9 points. Also, sales were backed by favorable net price realization and mix. Further, sales increased 7% year over year on an organic basis on the back of strength in Old El Paso Mexican food and Haagen-Dazs ice cream.

Asia & Latin America: Revenues rose 12% from the year-ago quarter's figure to \$455.6 million on higher volumes and favorable net price realizations and mix, partly countered by currency woes. Organic net sales increased 14%.

Pet Segment: Revenues came in at \$436.3 million, up 14% year over year on the back of solid volume growth, partially hurt by adverse net price realization and mix, which included launch investments for the new product line, Tastefuls.

Constant-currency sales from joint ventures of Cereal Partners Worldwide rose 5% in the quarter. In Haagen-Dazs Japan, sales improved 1% at cc from the prior-year quarter's figure.

Other Aspects & Outlook

The company ended the quarter with cash and cash equivalents of \$2,754.2 million, long-term debt of \$9,766.6 million and total shareholders' equity of \$8,890.3 million. General Mills generated \$2,207.9 million as net cash from operating activities in the nine months ended Feb 28, 2021.

The company anticipates consumer demand for food at home to remain elevated when compared with pre-pandemic levels for the rest of fiscal 2021. Full-year organic sales are anticipated to rise nearly 3.5%, indicating robust year-to-date growth, somewhat likely to be negated by tough year-over-year comparisons in the fourth quarter. The tough comparison is expected on account of the initial surge in coronavirus-led at-home food demand as well as an extra month of Pet segment results.

Adjusted operating profit margin in fiscal 2021 is likely to be in line with fiscal 2020 levels, as greater-than-expected first-half results are likely to be countered by elevated input cost inflation and escalated logistic costs in the second half of fiscal 2021.

Quarter Ending	02/2021
Report Date	Mar 24, 2021
Sales Surprise	1.34%
EPS Surprise	-2.38%
Quarterly EPS	0.82
Annual EPS (TTM)	3.98

Recent News

General Mills Unveils Accelerate Strategy, Reaffirms View – Feb 16, 2021

General Mills unveiled its “Accelerate” strategy to drive growth. The strategy is outlined to aid the company in making choices of how to win and where to play with an aim to boost profitability while enhancing shareholder returns in the long run. Under how to win, General Mills is focused on four pillars that are designed to provide competitive advantage. These include brand building, undertaking innovations, unleashing scale and maintaining business strength.

Where to play principle is outlined to enhance the company’s capabilities to generate profitability through geographic as well as product prioritization, along with portfolio restructuring. This includes prioritizing investment, investing in five Global Platforms, driving growth in Local Gem brands and reshaping portfolio.

The newly unveiled strategy is also likely to help General Mills in delivering mid- to high-single-digit adjusted earnings per share growth on a cc basis and generating robust shareholder returns. This is expected to be achieved through generating organic net sales growth between 2-3% and expanding margins to report mid-single-digit adjusted operating profit growth at cc. Also, converting at least 95% of adjusted net earnings into free cash flow and returning 80%-90% of free cash flow to shareholders via dividends as well as share buybacks is expected to contribute to the upside. Apart from these, the company reiterated its third-quarter and fiscal 2021 view, which were laid out on Dec 17, 2020.

General Mills Declares Dividend – Jan 25, 2021

General Mills has declared quarterly cash dividend of 51 cents per share. This will be payable on May 3, 2021 to shareholders of record as on Apr 9.

Valuation

General Mills shares are up 2.5% in the year-to-date period and 1.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.6% and the Zacks Consumer Staples sector gained 6.4% in the year-to-date period. Over the past year, the Zacks sub-industry went up 24.4% while the sector gained 25.5%.

The S&P 500 index is up 14.7% in the year-to-date period and 42.1% in the past year.

The stock is currently trading at 16.15X forward 12-month earnings, which compares to 19.18X for the Zacks sub-industry, 20.37X for the Zacks sector and 21.69X for the S&P 500 index.

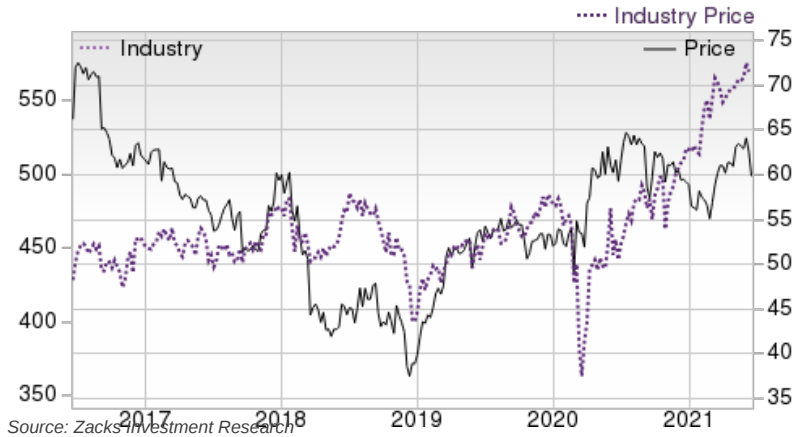
Over the past five years, the stock has traded as high as 23.31X and as low as 11.53X, with a 5-year median of 16.32X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 16.96X forward 12-month earnings.

The table below shows summary valuation data for GIS

Valuation Multiples - GIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.15	19.18	20.37	21.69
	5-Year High	23.31	22.92	22.4	23.83
	5-Year Low	11.53	14.67	16.52	15.31
	5-Year Median	16.32	18.34	19.51	18.05
P/S F12M	Current	2.05	1.71	10.22	4.71
	5-Year High	2.68	2.02	11.95	4.74
	5-Year Low	1.27	1.35	8.58	3.21
	5-Year Median	2.01	1.66	10.32	3.72
EV/EBITDA F12M	Current	13.22	12.43	35.51	17.23
	5-Year High	13.72	13.64	37.87	18.83
	5-Year Low	8.62	10.41	25.78	13.04
	5-Year Median	11.76	12.54	33.96	15.91

As of 06/23/2021

Industry Analysis Zacks Industry Rank: Bottom 31% (173 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
B&G Foods, Inc. (BGS)	Neutral	3
CONAGRA BRANDS (CAG)	Neutral	3
Flowers Foods, Inc. (FLO)	Neutral	3
Kellogg Company (K)	Neutral	3
Nomad Foods Limited (NOMD)	Neutral	2
TreeHouse Foods, Inc. (THS)	Neutral	4
United Natural Foods, Inc. (UNFI)	Neutral	3
Campbell Soup Company (CPB)	Underperform	5

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	GIS	X Industry	S&P 500	CAG	K	THS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	B	-	-	B	A	A
Market Cap	36.12 B	4.35 B	29.87 B	16.93 B	21.48 B	2.56 B
# of Analysts	8	3	12	8	9	6
Dividend Yield	3.45%	0.00%	1.35%	3.12%	3.68%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.08	0.05	0.06	0.00	0.02	0.02
EV/EBITDA	11.78	13.61	17.12	13.61	11.75	13.66
PEG F1	2.31	3.23	2.05	1.92	3.43	2.92
P/B	3.93	3.29	4.07	2.03	5.88	1.37
P/CF	12.90	12.90	17.35	11.42	11.70	7.11
P/E F1	16.16	21.27	20.98	13.44	15.44	16.13
P/S TTM	1.94	1.44	3.36	1.44	1.54	0.59
Earnings Yield	6.18%	4.04%	4.69%	7.46%	6.48%	6.19%
Debt/Equity	1.06	0.44	0.66	0.99	1.82	1.04
Cash Flow (\$/share)	4.59	2.52	6.83	3.09	5.39	6.40
Growth Score	D	-	-	C	B	B
Historical EPS Growth (3-5 Years)	6.31%	2.14%	9.59%	3.17%	1.85%	-3.66%
Projected EPS Growth (F1/F0)	-1.42%	3.61%	21.62%	-0.10%	2.40%	3.42%
Current Cash Flow Growth	9.11%	4.01%	0.99%	22.57%	1.05%	3.80%
Historical Cash Flow Growth (3-5 Years)	3.48%	5.21%	7.28%	4.34%	0.68%	6.44%
Current Ratio	0.69	1.74	1.39	0.80	0.68	1.21
Debt/Capital	51.53%	32.68%	41.51%	49.84%	64.55%	50.86%
Net Margin	13.68%	5.55%	11.95%	10.15%	9.12%	1.08%
Return on Equity	27.90%	12.26%	16.48%	16.95%	39.78%	8.41%
Sales/Assets	0.59	0.96	0.51	0.53	0.76	0.81
Projected Sales Growth (F1/F0)	-1.42%	1.84%	9.54%	-2.03%	0.79%	2.94%
Momentum Score	A	-	-	B	C	B
Daily Price Change	-1.66%	-0.27%	-0.11%	-1.29%	-1.33%	-1.51%
1-Week Price Change	-4.41%	-3.67%	0.43%	-4.42%	-2.41%	-5.00%
4-Week Price Change	-5.76%	-2.30%	1.09%	-6.96%	-4.57%	-7.27%
12-Week Price Change	-3.44%	0.24%	6.77%	-6.20%	-0.36%	-12.83%
52-Week Price Change	-1.79%	28.53%	39.06%	4.38%	-2.79%	1.99%
20-Day Average Volume (Shares)	3,519,510	172,316	1,889,295	3,014,249	2,049,272	404,513
EPS F1 Estimate 1-Week Change	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.03%	0.00%	0.01%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-0.37%	0.79%	3.54%	0.19%	1.38%	-5.32%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.22%	:	0.00%	0.00%	:	0.00%	0.00%	0.00%	0.00%
Source: Zacks Investment Research									

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	A
Growth Score	D
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

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.

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.

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.

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.