GameStop Corp. (GME)

$219.34 (As of 06/23/21)

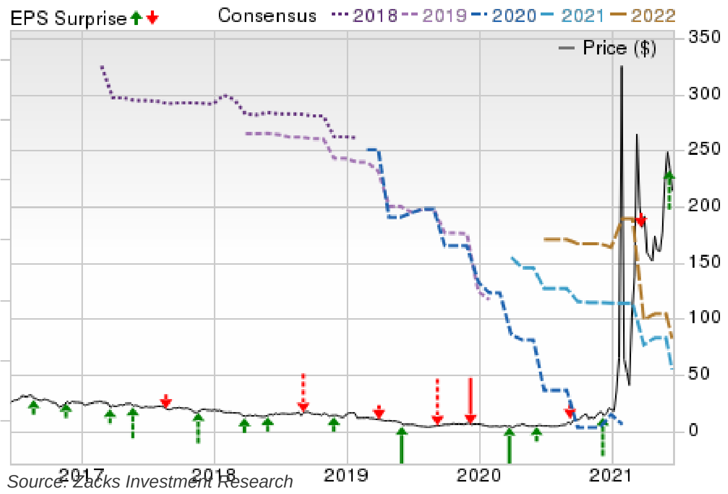
Price Target (6-12 Months): **$235.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/15/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: B | Momentum: F	

Summary

Shares of GameStop have risen and outpaced the industry in the past three months. The company has been undertaking efforts to fast track growth, particularly in the digital arena. To accelerate transformation, the company has resorted to capital restructuring. In this context, the company concluded selling 5 million shares in its last at-the-market equity offering program, and generated net proceeds worth as much as $1.13 billion. Moreover, during first-quarter fiscal 2021, the company undertook steps to eliminate long term debt. Speaking of first quarter performance, the company witnessed significant improvement in the top line. It gained from sales growth across hardware, accessories and collectibles categories. Management highlighted that second-quarter sales trend continue to reflect growth, with total sales in May rising 27% year on year.

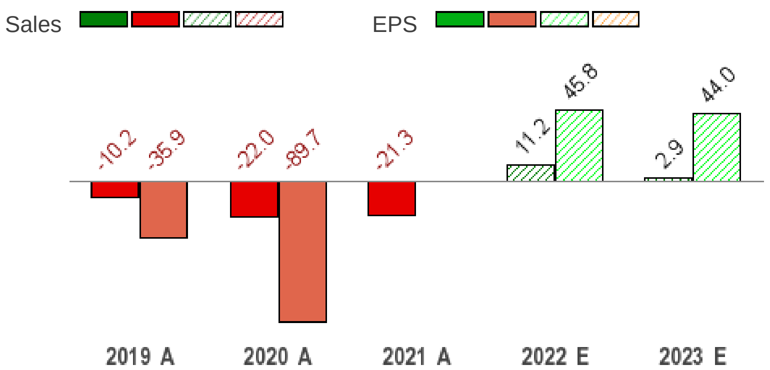
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$413.98 - $3.77**
20-Day Average Volume (Shares)	**10,170,466**
Market Cap	**$15.8 B**
Year-To-Date Price Change	**1,069.9%**
Beta	**-2.07**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Retail - Consumer Electronics**
Zacks Industry Rank	**Top 11% (27 out of 252)**
Last EPS Surprise	**32.8%**
Last Sales Surprise	**8.6%**
EPS F1 Estimate 4-Week Change	**-83.4%**
Expected Report Date	**09/08/2021**
Earnings ESP	**38.4%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**3.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2023	1,314 E	1,148 E	1,339 E	2,023 E	5,824 E
2022	1,277 A	1,102 E	1,248 E	2,092 E	5,658 E
2021	1,021 A	942 A	1,005 A	2,122 A	5,090 A

EPS Estimates

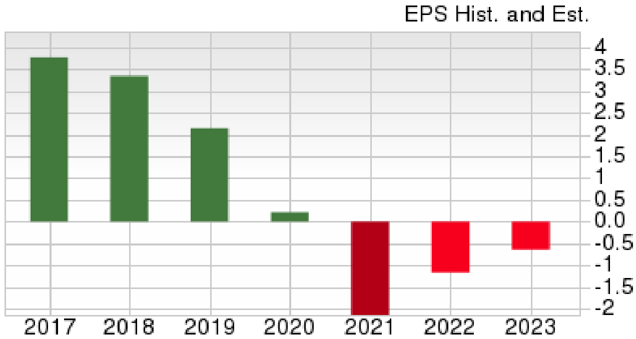
	Q1	Q2	Q3	Q4	Annual*
2023	-$0.28 E	-$0.27 E	$0.06 E	$1.58 E	-$0.65 E
2022	-$0.45 A	-$0.73 E	-$0.50 E	$1.06 E	-$1.16 E
2021	-$1.61 A	-$1.40 A	-$0.53 A	$1.34 A	-$2.14 A

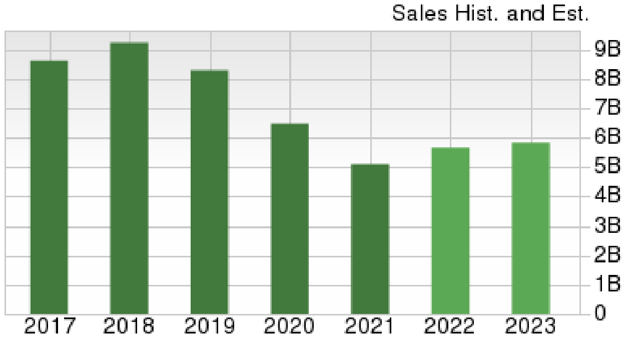
*Quarterly figures may not add up to annual.

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

Overview

Headquartered in Grapevine, TX, GameStop Corp. is the world's largest video game retailer. The company offers the best selection of new and pre-owned video gaming consoles, accessories and video game titles, in both physical and digital formats. The company's unique buy-sell-trade program allows customers to trade in video game consoles, games, and accessories, as well as other electronics for cash or in-store credit. Through all its channels, the company sells various types of digital products, including downloadable content, network points cards, prepaid digital, prepaid subscription cards and digitally downloadable software as well as collectible products.





The company also publishes Game Informer, the world's largest print and digital video game publication featuring reviews of new title releases, game tips and news regarding current developments in the video game industry. It also operates PowerUp Rewards program.

The company operates business in four geographic segments: United States, Canada, Australia and Europe. The company operates nearly 4,698 stores globally.

The company's products are categorized as follows:

Hardware and Accessories (49.7% of FY20 Sales): GameStop offers new and pre-owned video game platforms from the major console and PC manufacturers. The current generation of consoles include the Sony PlayStation 4 (2013), Microsoft Xbox One (2013) and the Nintendo Switch (2017). Accessories consist primarily of controllers, gaming headsets, virtual reality products and memory cards.

Software (38.9% of Sales): The company provides new and pre-owned video game software for current and certain prior generation consoles. It also sells a wide variety of in-game digital currency and digital downloadable content.

Collectibles (11.4% of Sales): The category consists of licensed merchandise, primarily related to the video game, television and movie industries and pop-culture themes, which are sold through the company's video game store and e-commerce properties, and ThinkGeek and Zing Pop Culture stores.

As per the company's filing on Jan 11, 2021, RC Ventures, an investment firm managed by Ryan Cohen, acquired a 12.9% stake with about 9,001,000 shares.

Source: Zacks Investment Research

Reasons To Buy:

> GameStop's has been fast tracking its digital transformation efforts, and has accordingly been undertaking prudent business initiatives.

▲ **Encouraging Sales in Q1:** GameStop reported better-than-expected first-quarter fiscal 2021 results. The company was able to achieve significant top-line growth, while the bottom line loss contracted on a year-over-year basis. Net sales amounted to $1,276.8 million, which increased 25% on a year-over-year basis. Markedly, it was able to achieve top-line growth despite store closures. By sales mix, hardware and accessories sales increased 37.1% to $703.5 million, while collectibles sales increased 93% to $175.4 million. Moving on, management highlighted that second-quarter sales trend continue to reflect growth. Notably, total sales in May increased nearly 27% year on year. The company continues to focus on business transformation, including efforts to boost digital business capabilities as well as product offerings. Notably, shares of the company have surged 993.8% in the past six months compared with the industry's rise of 42.7%.

▲ **Board & Capital Restructuring to Aid Transformation:** We note that GameStop has been undertaking prudent efforts to fast track growth, especially by expanding digital capabilities. In fact, for accelerating business transformation, GameStop has been restructuring its board and has formed a Strategic Planning and Capital Allocation Committee. Since the formation of this committee, the company has appointed several board executives with significant experience in e-commerce, customer care and technology. Such board restructuring moves are expected to help the company evolve into a strong and digitally advanced player in the gaming industry.

We note that GameStop completed selling 5 million shares through its "at-the-market" equity offering program (the "ATM Offering"). It generated aggregate gross proceeds before commissions and offering expenses of approximately $1.13 billion. Prior to this, the company completed the sale of 3.5 million shares of its common stock through the ATM Offering, and generated collective gross proceeds of roughly $551 million. The company intends to continue using such proceeds to further accelerate transformation as well as for general corporate purposes and strengthening balance sheet. GameStop has also completed the voluntary early redemption of $216.4 million of its 10.0% Senior Notes due 2023. This covers the full amount of the outstanding Notes, thus representing its entire long-term debt. The elimination of such debt is likely to help the help the company in strengthening its balance sheet as well as support transformation. Such moves are expected to help the company evolve into a strong and digitally advanced player in the gaming industry.

▲ **Online Sales Gaining Traction:** GameStop has been gaining from continued rise in e-commerce. The company's online wing is gaining from investments made to boost omni-channel capabilities. In this respect, the company has been gaining from enhanced fulfillment capabilities including the roll-out of same-day delivery option and several flexible payment options. To further boost consumers' shopping experience, the company has enhanced search and navigation as well as post-purchase features. It also launched a new mobile app with improved features and flexible payment options.

▲ **Deal with RC Ventures Stirs Excitement:** The co-founder of Chewy — Ryan Cohen — began taking interest in GameStop since the middle of last year. The market has since then been excited regarding the stock, on expectations that Cohen's expertise is likely to help turn around things for GameStop. RC Ventures, which is managed by Ryan Cohen, is currently one of the largest stakeholders of GameStop. The board restructuring will aid making use of RC Ventures' superior technology expertise and customer-oriented business approach, which in turn is likely to support GameStop in its transformation journey. The move is also likely to help the company attain greater strength in e-commerce and online marketing alongside aiding to expand digital products portfolio.

▲ **Multi-Year Deal With Microsoft:** GameStop has entered into a multi-year strategic deal with Microsoft, in order to provide customers with enhanced digital solutions. GameStop will utilize Microsoft's cloud solutions and hardware products to upgrade its business operations. Moreover the deal is likely to aid the company in fulfilling its vision of becoming the ultimate destination for video game products, expand connection to the global gamer community. The company will adopt Microsoft's cloud-based business applications and customer data platform, Dynamics 365, to augment its back-end and in-store solutions.

▲ **Strategic Endeavors**: GameStop has been undertaking strategic endeavors to bring the company back on track. These involve cost containment efforts, optimization of inventory, focusing on high margin product categories such as PC gaming accessories, private label and collectibles, and rationalization of its store base worldwide. As part of the strategic store de-densification strategy, the company shuttered 118 stores during the first quarter. The company now operates 4,698 stores globally. Apart from this, the company has been striving to expand its fulfillment network. Recently, the company developed a new fulfillment center in York, PA. The facility is expected to be operational by fourth-quarter fiscal 2021 and will support e-commerce fulfillment needs, especially across the east coast. Further, the company has been focusing on augmenting store experience and expanding PowerUp Rewards loyalty program.

▲ **Financial Flexibility:** As of May 1, 2021, GameStop has cash and restricted cash amounting to $770.8 million. Cash and cash equivalents were $694.7 million, up 36.6% sequentially. Compared with year-ago quarter's figures, overall debt levels were reduced by $504 million. This reflects the redemption of $202 million of senior notes due in 2021, the voluntary early redemption of $216.4 million of 10% senior notes due in 2023 (which represented the company's entire long-term debt) as well as the paydown of the company's asset-based revolving credit facility worth $135 million. At the end of the quarter, the company had no borrowings under its asset-based revolving credit facility and no long-term debt.

▲ **Strong Footing in Gaming Arena:** GameStop continues to branch out its business and has evolved as a mixed retailer of physical and digital gaming as well as electronics products. The company's venture into digital, iDevice and gaming tablet businesses have been accretive to its results. Also, the company's buy-sell-trade model of selling new games and buying back used games, and the PowerUp Rewards program have made it a popular destination for shoppers.

Reasons To Sell:

Store closures amid the pandemic have been a headwind for GameStop. Also gross margin has continued to remain weak.

- **Stock Overvalued:** Considering price-to-book (P/B) ratio, GameStop looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/B ratio of 18.78X, which is above the median level of 3.16X but lower than the high level of 68.17X scaled in the past one year. On the contrary, the trailing 12-month P/B ratio for the industry and the S&P 500 is 10.77X and 7.07X, respectively.

- **Store Closures:** Pandemic-led store closures continues to remain a worry for GameStop. Markedly, during first-quarter fiscal 2021 the company witnessed a 12% decline in store base owing to strategic de-densification strategy as well as continued store closures across Europe due to the COVID-19 pandemic.

- **Contraction in Gross Margin:** Margin remains an important financial metric to determine the health of the company. During the first quarter, gross profit contracted 180 basis points (bps) to 25.9%. The downside was caused by increased mix of lower margin sales. Prior to this, gross margin contracted 610 bps, 320 bps and 420 bps during the fourth, third and the second quarter of 2020, respectively.

- **Stiff Competition:** The video game industry is highly competitive, and video game shoppers now have many alternatives to buy software, hardware, and game accessories for video game systems and personal computers. Retail bigwigs such as Wal-Mart, Target and Best Buy have also entered the video game market. These larger retailers could dent GameStop's sales and margins. Moreover, consumers can only download a limited number of PC entertainment software and older generation video games from the Internet. However, with the advancement of technology, if the consumers' accessibility increases, they may no longer prefer to buy PC entertainment software and video games through the company's retail stores.

- **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focusing on necessities for the time being.

Last Earnings Report

GameStop Q1 Loss Narrower-Than-Expected, Sales Up

Quarter Ending	04/2021
Report Date	Jun 09, 2021
Sales Surprise	8.56%
EPS Surprise	32.84%
Quarterly EPS	-0.45
Annual EPS (TTM)	-1.04

GameStop reported better-than-expected first-quarter fiscal 2021 results. The company was able to achieve significant top-line growth, while the bottom line loss contracted on a year-over-year basis. Notably, the company witnessed sales growth across all categories.

Management remains impressed with growth witnessed in the quarter, despite store closures that were undertaken as part of the company's de-densification efforts. Also, temporary store closures in Europe due to pandemic were a drag. Progressing on its growth endeavors, the company has been on track with strengthening balance sheet. This includes noteworthy steps undertaken to eliminate long term debt. Also, the company intends to sell more shares under its "at-the-market" equity offering program (the "ATM Offering") for bolstering financial position as well as aiding business transformation. Further, the company announced new inclusions to its board.

Moving on, management highlighted that second-quarter sales trend continue to reflect growth. Total sales in May increased nearly 27% year on year. However, the company continues to suspend the guidance for the fiscal year.

We note that shares of the company dropped 5.2% during the after-market trading hours on June 9.

Q1 in Details

GameStop posted adjusted loss of 45 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of 67 cents. In the year-ago quarter, the company reported adjusted loss of $2.44.

Net sales amounted to $1,276.8 million, which surpassed the Zacks Consensus Estimate of $1,176 million and increased 25% on a year-over-year basis. Prudent efforts to boost digital business capabilities as well as product offerings contributed to the company's performance in the quarter. Markedly, it was able to achieve top-line growth despite a 12% decline in store base owing to strategic de-densification strategy as well as continued store closures across Europe due to the COVID-19 pandemic.

By sales mix, hardware and accessories sales increased 37.1% to $703.5 million. Software sales fell 4.6% to $397.9 million, while collectibles sales increased 93% to $175.4 million.

Moving on, gross profit increased 16.9% year over year to $330.1 million. However, gross margin contracted 180 basis points (bps) to 25.9%. The downside was caused by increased mix of lower margin sales.

Selling, general and administrative (SG&A) expenses amounted to $370.3 million, down 4.2% year on year. As a percentage of sales, SG&A expenses improved 880 bps. Further, adjusted SG&A expenses (after adjusting severance, transformation and other costs) declined 7.7% year on year and reflected 10 percentage points of sales leverage.

The company's adjusted operating loss amounted to $21.6 million in the reported quarter. This compares with adjusted operating loss of $98.8 reported in the prior-year quarter.

Adjusted EBIDTA loss came in at $0.7 million compared with adjusted EBIDTA loss of $75.5 million in the prior-year quarter.

Other Financial Aspects

As of May 1, 2021, GameStop has cash and restricted cash amounting to $770.8 million. Cash and cash equivalents were $694.7 million. Moreover, the company ended the quarter with net short-term debt (including current portion of long-term debt) of $48.1 million and stockholders' equity of $879.5 million. Compared with year-ago quarter's figures, overall debt levels were reduced by $504 million. This reflects the redemption of $202 million of senior notes due in 2021, the voluntary early redemption of $216.4 million of 10% senior notes due in 2023 (which represented the company's entire long-term debt) as well as the paydown of the company's asset-based revolving credit facility worth $135 million. At the end of the quarter, the company had no borrowings under its asset-based revolving credit facility and no long-term debt.

We note that GameStop completed the sale of 3.5 million shares of its common stock through its ATM Offering program. It generated collective gross proceeds before commissions and offering expenses of nearly $551 million. The company intends to continue using the proceeds for accelerating its transformation efforts as well as for general corporate purposes and strengthening balance sheet. As a result of the ATM Offering, the company now has total shares outstanding of approximately 71.9 million. Additionally, the company announced a new ATM offering for a prospectus filing under which it may offer and sell up to 5 million shares.

At the end of the first quarter, accounts payable were up 83.2% year on year to $388.6 million, while merchandise inventory of $570.9 million was down 12.8%.

For the 13-weeks ended May 1, 2021, the company's net cash flows used in operating activities amounted to $18.8 million. The company incurred capital expenditures of $14.7 million during the first quarter.

Recent News

GameStop Raises $1.1 Billion Through ATM Offering – Jun 22, 2021

GameStop completed the sale of 5 million shares through its its at-the-market equity offering program. It generated aggregate gross proceeds before commissions and offering expenses of approximately $1.13 billion.

GameStop Appoints New CFO and CEO – Jun 10, 2021

GameStop appoints of Matt Furlong as chief executive officer and Mike Recupero as chief financial officer. Both the veterans have previously worked for Amazon, where they held senior roles and oversaw various growth initiatives. Management informed that the company will continue to actively pursue senior talent procurement with adequate gaming, retail and technology-related experience.

GameStop to Open a New Facility – May 3, 2021

GameStop will be expanding its North American fulfillment network by developing a new fulfillment center in York, Pennsylvania. The facility is expected to be operational by fourth-quarter fiscal 2021 and will support e-commerce fulfillment needs. The facility will also aid in the expansion of product offerings and expedite shipping across the east coast.

GameStop Completes Early Redemption of Senior Notes – May 3, 2021

GameStop completed the voluntary early redemption of $216.4 million of its 10% Senior Notes due in 2023.

GameStop Raises $551M, Speeds Transformation Process – Apr 27, 2021

GameStop completed the sale of 3.5 million shares of its common stock through the “at-the-market” equity offering program (the “ATM Offering”). It generated collective gross proceeds before commissions and offering expenses of roughly $551 million.

GameStop to Redeem Senior Notes – Apr 14, 2021

GameStop announced the voluntary early redemption of $216.4 million in principal amount of its 10% Senior Notes due in 2023. This covers the entire amount of outstanding Notes. The move is likely to aid strengthening the company’s balance sheet and thereby support transformation.

Valuation

GameStop shares are up 1069.9% in the year-to-date period and nearly 4897.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 48.5% while the Zacks Retail-Wholesale were down 0.1%, in the year-to-date period. Over the past year, the sub-industry and the sector are up 77.7% and 19.3%, respectively.

The S&P 500 index is up 13.9% in the year-to-date period and 41.3% in the past year.

The stock is currently trading at 2.77X forward 12-month sales, which compares to 0.71X for the Zacks sub-industry, 1.33X for the Zacks sector and 4.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.16X and as low as 0.03X, with a 5-year median of 0.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $235 price target reflects 2.95X forward 12-month sales.

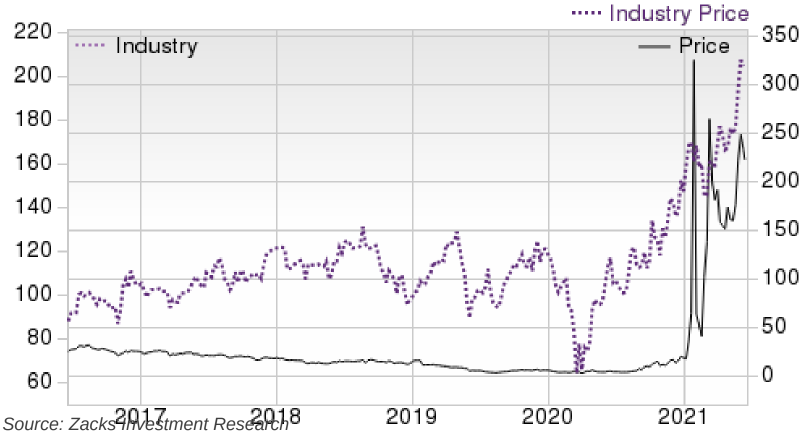
The table below shows summary valuation data for GME

Valuation Multiples - GME

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.77	0.71	1.33	4.72
	5-Year High	4.16	0.83	1.41	4.74
	5-Year Low	0.03	0.23	0.84	3.21
	5-Year Median	0.18	0.35	1.02	3.72
P/B TTM	Current	17.74	10.38	5.55	7.07
	5-Year High	68.17	14.08	6.49	7.08
	5-Year Low	0.3	1.89	3.8	3.84
	5-Year Median	0.84	3.61	5.16	5.02
P/CF TTM	Current	94.34	6.9	14.08	26.24
	5-Year High	145.3	10.51	19.02	26.29
	5-Year Low	NA	3.52	11.03	12.87
	5-Year Median	4.19	6.32	13.86	18.99

As of 06/22/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 11% (27 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DICKS Sporting Goods, Inc. **(DKS)**	Outperform	1
Target Corporation **(TGT)**	Outperform	1
Best Buy Co., Inc. **(BBY)**	Neutral	2
Big Lots, Inc. **(BIG)**	Neutral	3
Conns, Inc. **(CONN)**	Neutral	1
Kohls Corporation **(KSS)**	Neutral	3
Macys, Inc. **(M)**	Neutral	1
Vivint Smart Home, Inc. **(VVNT)**	Neutral	3

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

Industry Comparison Industry: Retail - Consumer Electronics

Industry Peers

	GME	X Industry	S&P 500	CONN	DDS	M
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	1	1	1
VGM Score	D	-	-	A	B	C
Market Cap	15.83 B	1.91 B	30.14 B	760.95 M	3.56 B	5.82 B
# of Analysts	4	3	12	4	3	7
Dividend Yield	0.00%	0.00%	1.35%	0.00%	0.36%	0.00%
Value Score	D	-	-	A	B	B
Cash/Price	0.05	0.09	0.06	0.08	0.19	0.33
EV/EBITDA	-97.14	10.80	17.08	10.80	31.32	-2.43
PEG F1	NA	1.00	2.05	0.43	0.49	0.72
P/B	17.74	5.91	4.08	1.26	2.31	2.17
P/CF	NA	18.93	17.37	9.32	23.97	20.04
P/E F1	NA	11.46	20.93	9.89	11.80	8.66
P/S TTM	2.96	2.36	3.37	0.53	0.73	0.31
Earnings Yield	-0.53%	3.57%	4.67%	10.11%	8.47%	11.53%
Debt/Equity	0.00	0.01	0.66	0.81	0.37	1.70
Cash Flow ($/share)	-0.83	0.55	6.83	2.78	7.02	0.93
Growth Score	B	-	-	A	A	B
Historical EPS Growth (3-5 Years)	-35.94%	0.06%	9.59%	0.06%	7.63%	-30.81%
Projected EPS Growth (F1/F0)	45.68%	39.62%	21.62%	4,266.67%	622.45%	197.42%
Current Cash Flow Growth	-150.39%	-58.04%	0.99%	-39.20%	-53.25%	-84.72%
Historical Cash Flow Growth (3-5 Years)	NA%	11.23%	7.28%	2.18%	-21.36%	-33.97%
Current Ratio	1.36	1.36	1.39	3.74	1.94	1.31
Debt/Capital	0.00%	12.01%	41.51%	44.90%	26.90%	63.02%
Net Margin	-2.18%	4.44%	11.95%	6.87%	5.13%	-1.36%
Return on Equity	-12.78%	15.44%	16.48%	18.58%	16.69%	2.78%
Sales/Assets	2.14	0.79	0.51	0.79	1.49	1.05
Projected Sales Growth (F1/F0)	11.17%	9.69%	9.48%	9.69%	36.02%	25.85%
Momentum Score	F	-	-	A	F	D
Daily Price Change	10.00%	0.00%	0.51%	-0.23%	4.11%	2.59%
1-Week Price Change	-8.37%	0.00%	0.00%	-11.59%	-8.85%	-8.94%
4-Week Price Change	5.24%	5.24%	1.39%	19.45%	30.18%	3.84%
12-Week Price Change	13.34%	8.17%	7.27%	65.62%	80.69%	12.55%
52-Week Price Change	4,463.15%	125.00%	35.61%	173.71%	549.42%	160.84%
20-Day Average Volume (Shares)	10,170,466	165,150	1,876,146	494,387	337,154	14,205,627
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-83.36%	14.05%	0.03%	60.49%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-55.00%	14.44%	3.59%	101.93%	427.88%	214.61%

EPS Q1 Estimate Monthly Change	-23.16%	9.17%	0.00%	12.53%	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	D
Growth Score	B
Momentum Score	F
VGM Score	D

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm 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 mostrecent 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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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.