

## The Home Depot Inc. (HD)

**\$304.82** (As of 03/30/21)

Price Target (6-12 Months): **\$320.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM: C

Value: C

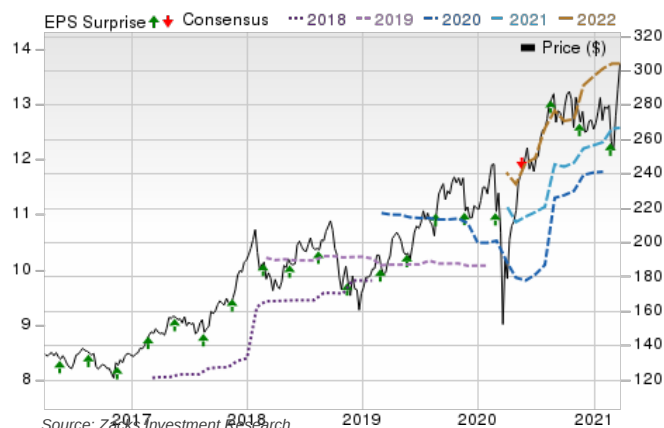
Growth: B

Momentum: D

### Summary

The Home Depot has outpaced the industry in year to date courtesy of its fundamental strength and a robust surprise trend with third straight quarter of earnings and sales beat posted in fourth-quarter fiscal 2020. During the quarter, the company witnessed continued strong demand for home improvement projects. Also, broad-based strength across its business and geographies led to comparable sales growth. It also gained from strong growth in its Pro and DIY customer categories. Its interconnected retail strategy and underlying technology infrastructure have helped boost web traffic in fiscal 2020. However, the company has been witnessing soft margins trend on higher expenses. Negative product mix and pressures from shrink and higher transportation costs have been headwinds. It also provided a lower-than-expected view for fiscal 2021.

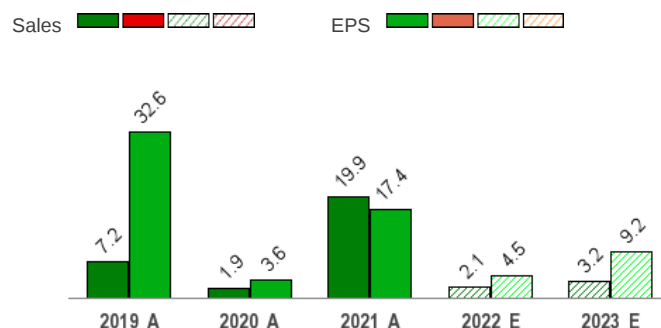
### Price, Consensus & Surprise



### Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$306.95 - \$174.00</b>        |
| 20-Day Average Volume (Shares) | <b>5,559,176</b>                  |
| Market Cap                     | <b>\$328.2 B</b>                  |
| Year-To-Date Price Change      | <b>14.8%</b>                      |
| Beta                           | <b>1.01</b>                       |
| Dividend / Dividend Yield      | <b>\$6.60 / 2.2%</b>              |
| Industry                       | <b>Building Products - Retail</b> |
| Zacks Industry Rank            | <b>Top 38% (97 out of 253)</b>    |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>4.2%</b>       |
| Last Sales Surprise           | <b>5.2%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.1%</b>       |
| Expected Report Date          | <b>05/18/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>25.4</b>       |
| P/E F1                        | <b>24.3</b>       |
| PEG F1                        | <b>2.1</b>        |
| P/S TTM                       | <b>2.5</b>        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2023 | 34,221 E | 38,875 E | 34,613 E | 33,519 E | 139,203 E |
| 2022 | 33,380 E | 37,395 E | 32,704 E | 31,252 E | 134,832 E |
| 2021 | 28,260 A | 38,053 A | 33,536 A | 32,261 A | 132,110 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2023 | \$3.00 E | \$4.31 E | \$3.52 E | \$3.07 E | \$13.73 E |
| 2022 | \$2.84 E | \$3.95 E | \$3.13 E | \$2.69 E | \$12.57 E |
| 2021 | \$2.08 A | \$4.02 A | \$3.18 A | \$2.74 A | \$12.03 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 03/30/2021. The report's text and the analyst-provided price target are as of 03/31/2021.

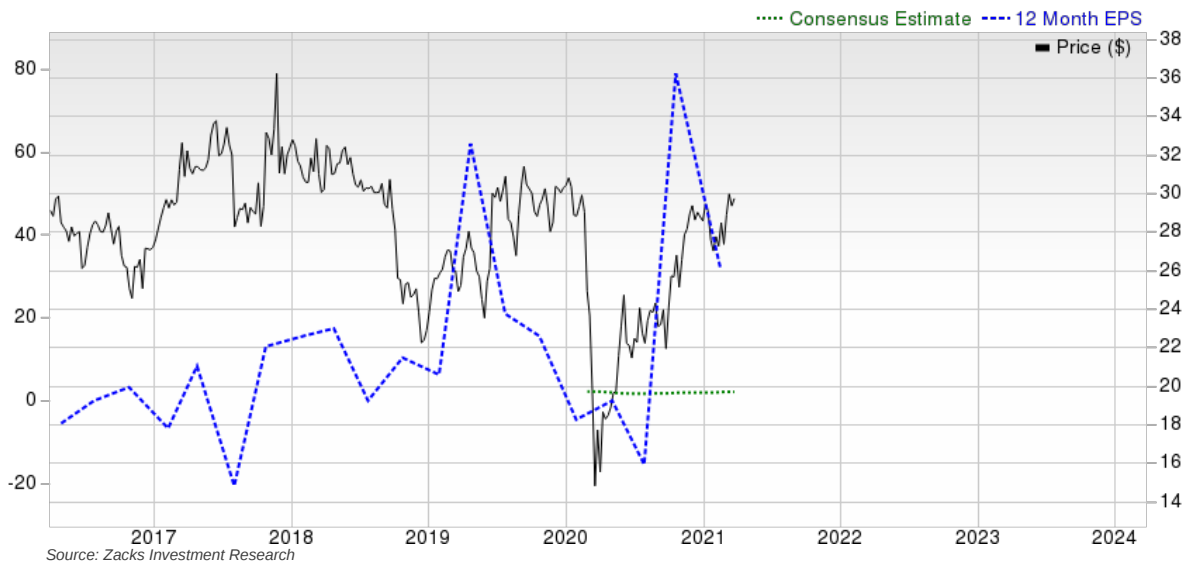
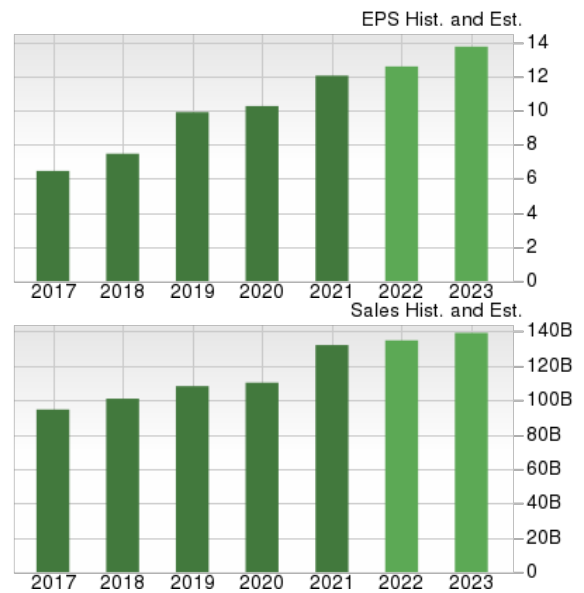
## Overview

Based on net sales, The Home Depot Inc. is the world's largest home improvement specialty retailer with 2,291 retail stores across the globe as of the end of fiscal 2019. It offers a diverse range of branded and proprietary home improvement items, building materials, lawn and garden products, décor products and related services.

With the help of its stores, the company operates throughout the United States (including Puerto Rico and the territories of the Virgin Islands and Guam), Canada and Mexico and employs more than 300,000 associates. The company's average store area is almost 104,000 square feet with approximately 24,000 square feet of additional outside garden area. It also functions through a network of distribution and fulfillment centers, as well as a number of e-commerce websites.

The company typically serves three primary customer groups: Do-It-Yourself (DIY), Do-It-For-Me (DIFM), and Professional Customers.

- **DIY Customers:** These customers are usually homeowners, who prefer purchasing products and completing installations on their own. The company engages these customers in various platforms to provide product and project knowledge.
- **DIFM Customers:** These customers are usually homeowners, who purchase products on their own and employ third-parties to complete the projects and installations. The company offers a variety of installation services in stores, online, or in their homes through in-home consultations for DIFM customers.
- **Professional Customers:** This customer segment mostly comprises professional remodelers, general contractors, repairmen, small business owners, and tradesmen. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Robust Q4 Results:** Shares of Home Depot rallied 14.8% year to date compared with the industry's growth of 14.2%. The company posted strong fourth-quarter fiscal 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate and improved year over year. This marked the third straight quarter of earnings and sales beat for the company. Adjusted earnings growth of 20.2% year over year was driven by 25.1% increase in sales on strong demand. During the quarter, the company witnessed continued strong demand for home improvement projects. Moreover, the company witnessed broad-based strength across its business and geographies. Its overall comparable sales (comps) grew 24.5%, with a 25% improvement in the United States. Comps were aided by a 10.8% rise in average ticket and a 12.8% increase in customer transactions. Moreover, sales per square foot advanced 24%. Also, it witnessed strong double-digit growth from both the Pro and DIY customers.

The Home Depot's interconnected retail strategy and underlying technology infrastructure have helped consistently boost web traffic in fiscal 2020.

▲ **Integrated Retail Strategy:** The Home Depot is witnessing significant benefits from the execution of its "One Home Depot" investment plan, which focuses on expanding supply chain facilities, technology investments and enhancements to the digital experience. Amid the pandemic, customers have been blending of the physical and digital elements of the shopping experience more than ever before making the company's interconnected One Home Depot strategy most relevant. Its interconnected retail strategy and underlying technology infrastructure helped consistently boost web traffic throughout fiscal 2020. Sales leveraging the digital platforms grew 83% in the fiscal fourth quarter, with about 55% of the online orders being delivered from a store. Another key component of delivering an interconnected experience is enhanced delivery and fulfillment options. Over the years, the company has created the fastest, most efficient delivery network in home improvement. It has enabled multiple fulfillment options including buy online pickup in store (BOPIS) with convenient pickup lockers, buy online deliver from store with express car and van delivery, and most recently, the curbside pickup option. The company witnessed increased usage of these fulfillment options as customers are increasingly adopting the interconnected shopping experience.

▲ **Focus on Home Improvement Projects Aid DIY Sales:** The increased stay-at-home trends have led to a rise in repairs and home remodeling projects, with heightened engagement from new and existing customers. This has resulted in increased engagement in DIY projects. Notably, the company witnessed increased demand for outdoor living categories like patio furniture, grills and outdoor power equipment. Also, popular interior project categories like Vanity's faucets, moldings and interior lighting have been strong. Additionally, it witnessed strong growth during the annual Black Friday and gift center events, both in stores and online, during the fourth quarter. As a result, DIY sales grew faster than Pro sales growth in the fiscal fourth quarter.

▲ **Focus on Pro Customers:** The Home Depot's Pro segment has been a key growth driver, with Pro segment witnessing robust sales growth for the past several quarters. In the fiscal fourth quarter, its Pro customers sales accelerated on a sequential basis and grew double-digits year over year. Moreover, fourth quarter marked the strongest growth for the Pro business in 2020. The company witnessed notable strength in smaller pro customers, despite market closures due to the pandemic. Notably, the smaller Pro customers delivered consistent growth, with strong double-digit growth each month of the fourth quarter. Also, growth for its larger Pro customers accelerated, with double-digits growth recorded in each month of the quarter. Going forward, the company expects increase in demand for all Pro customers, with a recovery in larger Pro customers as evident from the increase in backlogs. The company remains on track with its strategic investments to build a Pro ecosystem that includes professional grade product, exclusive brands, enhanced delivery, credit, digital capabilities, field sales support, HD rental and more. The company expects its differentiated Pro ecosystem will aid deeper engagement with Pro customers in the long term.

▲ **Financial Flexibility:** The Home Depot enjoys strong financial status. Although the company's cash and cash equivalents at the end of fourth-quarter fiscal 2020 of \$7,895 million declined significantly from \$14,652 million at the end of the fiscal third quarter, it remains sufficient to fund its short-term obligations of about \$1,416 million (current installments of long-term debt). As of Jan 31, 2021, the company had a long-term debt of \$32,831 million, which reflects a sequential increase 9.1%. Its debt-to-capitalization ratio of 0.92 compares favorably with 0.96 at the end of the fiscal third quarter. Further, its times interest earned ratio of 13.6 compares favorably with 13.4 at the end of the third quarter, indicating better prospects to meet debt obligations.

▲ **Sustained Shareholder Returns:** The Home Depot has a disciplined capital allocation strategy, supported by solid free cash flow generation capability. This allows management to undertake shareholder-friendly moves. Clearly, the long-term targets of dividend payout ratio of about 55% of earnings and return on invested capital (ROIC) of more than 40% highlight its focus on this strategy. Based on the average of beginning and ending long-term debt and equity for the trailing 12 months, ROIC at the end of third-quarter fiscal 2020 was 41.6%. In wake of the coronavirus outbreak, the company suspended its share repurchase program in mid-March to preserve liquidity. The company expects to resume share repurchases in the first quarter of fiscal 2021. In fiscal 2020, the company paid out cash dividends of \$6,451 million and repurchased shares worth \$791 million. Moreover, it has raised its quarterly dividend by 10% to \$1.65 per share. This brings the company's annualized dividend to \$6.60 per share. The hiked dividend is payable Mar 25, 2021, to shareholders of record as of Mar 11. Notably, The Home Depot has a dividend payout ratio of 54.9%, annualized dividend yield of 2.5% and free cash flow yield of 6.3%. With an annual free cash flow return on investment of 60.85%, ahead of the industry's nearly 57.42%; the dividend payment is likely to be sustainable.

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## Reasons To Sell:

▼ **Soft Margins:** Although Home Depot's gross profit increased 24% year over year in fourth-quarter fiscal 2020, gross margin contracted 31 basis points (bps) to 33.6%. The decrease was primarily driven by changes in the mix of products sold and continued pressure from shrink and higher transportation costs. Negative mix from lumber alone hurt gross margin by 30 bps in the fiscal fourth quarter. Meanwhile, operating margin contracted 54 bps to 12.66%. Despite gains from the robust top line, operating margin was hurt by gross margin decline as well as higher SG&A and other operating expenses. In the fiscal fourth quarter, operating expense deleveraged 25 bps, as a percentage of sales, to 20.9%. Operating expense deleverage mainly resulted from non-recurring expense related to the completion of the HD Supply acquisition (30 bps impact), enhanced benefits for associates in response to COVID-19 (105 bps), and operational COVID-related expenses (20 bps). Excluding one-time expense related to the HD Supply acquisition, adjusted operating margin was 13% in the fiscal fourth quarter.

The Home Depot incurred \$340 million in the fiscal fourth quarter to provide incremental benefits to its associates, including weekly bonuses for hourly associates in stores and distribution centers.

▼ **Increased Coronavirus-Related Costs:** In the wake of the coronavirus pandemic, Home Depot has been providing enhanced payments to hourly associates, including expanded paid time-off, additional paid time-off for older associates who are at high risk, weekly bonuses for store and distribution center workers, doubled overtime pay, and extended dependent care benefits. The company incurred \$340 million in the fiscal fourth quarter for enhanced benefits to associates, which resulted in about 105 basis points (bps) of expense deleverage. In fiscal 2020, the company has paid about \$2 billion for enhanced pay and benefits in response to the pandemic. Additionally, the company incurred \$55 million of operational pandemic-related costs in the quarter, resulting in 20 bps expense deleverage. These costs mainly related to personal protective equipment for its associates and customers and enhanced cleaning of stores.

Moreover, the company has transitioned from a temporary weekly bonus program to permanent compensation enhancements for its frontline hourly associates. It expects to incur nearly \$1 billion of incremental expense on an annual basis through this program.

▼ **Soft View:** The Home Depot did not provide a specific outlook for fiscal 2021 based on the uncertainties related to the pandemic. The company stated that it is difficult to predict the demand environment in fiscal 2021 due to the uncertainty related to the duration of the pandemic and its impacts on consumer spending. Based on the expectations that the demand environment prevalent in the second half of fiscal 2020 will continue throughout fiscal 2021, the company anticipates comparable sales growth of flat to slightly positive. Moreover, operating margin is expected to be at least 14% compared with 13.8% reported in fiscal 2020. Although the company predicts growth, the guidance reflects a slowdown compared to the prior years. Moreover, the guidance suggests that the company is uncertain about its business prospects in the post-COVID period.

▼ **Stiff Competition:** In the home improvement retailing business, Home Depot faces stiff competition from Lowe's, Sherwin-Williams Company and other home supply retailers on aspects such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Additionally, the company faces intense competition from online retailers. This may weigh upon the company's results.

▼ **Macroeconomic Headwinds:** Home Depot'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 discretionary spending, and in turn the company's growth and profitability. An unfavorable economy might delay home improvement projects, which in turn could hamper sales of product categories and services provided by the company.

▼ **Risk of Operating in Overseas Market:** Home Depot's exposure to the international market makes it vulnerable to currency fluctuations. Weakening of foreign currencies against the U.S. dollar may require the company to either raise product prices or contract profit margins in locations outside the U.S. An increase in product prices may have an adverse impact on consumer demand.

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## Last Earnings Report

### The Home Depot Beats on Q4 Earnings, View Soft

The Home Depot has posted fourth-quarter fiscal 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate and improved year over year. The company gained from the continued strong demand for home-improvement projects as well as its ongoing investments. However, it did not provide a specific outlook for fiscal 2021.

The company stated that it is difficult to predict the demand environment in fiscal 2021 due to the uncertainty related to the duration of the pandemic and its impacts on consumer spending. Based on the expectations that the demand environment prevalent in the second half of fiscal 2020 will continue throughout fiscal 2021, the company anticipates comparable sales growth of flat to slightly positive. Moreover, operating margin is expected to be at least 14% compared with 13.8% reported in fiscal 2020.

Quarter Ending 01/2021

|                  |              |
|------------------|--------------|
| Report Date      | Feb 23, 2021 |
| Sales Surprise   | 5.24%        |
| EPS Surprise     | 4.18%        |
| Quarterly EPS    | 2.74         |
| Annual EPS (TTM) | 12.02        |

### Q4 Highlights

Earnings of \$2.65 per share improved 16.2% from \$2.28 registered in the year-ago quarter. Excluding the one-time cost related to the acquisition of HD Supply Holdings Inc., adjusted earnings was \$2.74 per share. The bottom line beat the Zacks Consensus Estimate of \$2.63.

Net sales advanced 25.1% to \$32,261 million from \$25,782 million in the year-ago quarter and beat the Zacks Consensus Estimate of \$30,655.1 million. Sales benefited from the continued robust demand for home improvement projects. The company is effectively adapting to the high-demand environment, driven by investments in its business over the years and the dedication of its associates to serve customers. Its overall comps grew 24.5%, with a 25% improvement in the United States.

In the reported quarter, comps were aided by a 10.8% rise in average ticket and a 12.8% increase in customer transactions. Moreover, sales per square foot rose 24%.

In dollar terms, gross profit increased 24% to \$10,831 million from \$8,736 million in the year-ago quarter, primarily driven by robust sales growth. Meanwhile, gross profit margin contracted 31 basis points (bps) to 33.6%.

Operating income increased 20% to \$4,083 million, while operating margin declined 54 bps to 12.66%. Despite gains from the robust top line, operating margin was hurt by a gross margin decline as well as higher SG&A and other operating expenses.

### Balance Sheet and Cash Flow

The Home Depot ended fiscal 2020 with cash and cash equivalents of \$7,895 million, long-term debt (excluding current maturities) of \$35,822 million, and shareholders' equity of \$3,299 million. In fiscal 2020, it generated \$18,839 million of net cash from operations.

In fiscal 2020, the company paid out cash dividends of \$6,451 million and repurchased shares worth \$791 million.

Moreover, it has raised its quarterly dividend by 10% to \$1.65 per share. This brings the company's annualized dividend to \$6.60 per share. The hiked dividend is payable Mar 25, 2021, to shareholders of record as of Mar 11.

## Recent News

### Home Depot Opens New Distribution Center in Dallas, Adds Jobs – Feb 2, 2021

Home Depot has opened its new distribution center in Dallas, with a view to fulfil orders through multiple channels including direct home delivery or local store pickup. The 1.5 million square feet distribution center will also cater to the installation of large appliances such as washers, dryers, and refrigerators ordered in stores or online. This will improve shopping experience for customers in the Dallas Fort-Worth area.

The new facility features a zero-emission hydrogen fuel cell charging station — a sustainable and more efficient way to power material handling equipment. It also includes more than six miles of mechanized lines and other automation technologies that enable increased product flow.

The Dallas-Fort Worth market is a key hub for The Home Depot's delivery and supply chain strategy. In early 2020, the company opened another distribution center in the new Dallas campus to supply building materials and other bulky products directly to DIY and Pro customers, within the same day or the next day of ordering.

The new facility will expand the company's supply chain footprint in the Dallas-Fort Worth from 2.1 million square feet to 4.5 million square feet. Moreover, it is expected to create approximately 1,500 new jobs by the end of 2021. The company currently operates 20 distribution centers in the state of Texas.

The latest expansion forms a part of the company's \$1.2 billion investment to expand national distribution and delivery network.

### Home Depot & Allstate to Provide Enhanced Protection Plan – Feb 1, 2021

Home Depot has tied-up with Allstate to launch an industry-leading extended protection plan, which provides customers with greater benefits and faster repair services. The program is devised to cover major appliances, outdoor power equipment, grills, power tools, home electronics, and other products purchased in store or online. This plan will give customers confidence in Home Depot's products by ensuring that they make things right if something is wrong.

The key benefits provided by The Home Depot Protection Plan powered by Allstate are speed of service guarantee, shorter appointment window, advanced troubleshooting, trusted professional and industry-leading "No Lemon" policy. This provides the ease of getting a problem solved within a lesser duration over the phone call or through an appointment with a certified technician. Also, it helps customers to get products or appliances replaced or refunded if three service repairs are needed at the same time.

## Valuation

The Home Depot shares are up 14.8% in the year-to-date period and 70.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 14.2% but the Zacks Retail-Wholesale sector is down 0.1% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 84.8% and 58.6%, respectively.

The S&P 500 index is up 6.1% in the year-to-date period and 62.7% in the past year.

The stock is currently trading at 23.9X forward 12-month earnings, which compares to 21.91X for the Zacks sub-industry, 30.16X for the Zacks sector and 22.42X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.11X and as low as 14.42X, with a 5-year median of 20.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$320 price target reflects 25.09X forward 12-month earnings.

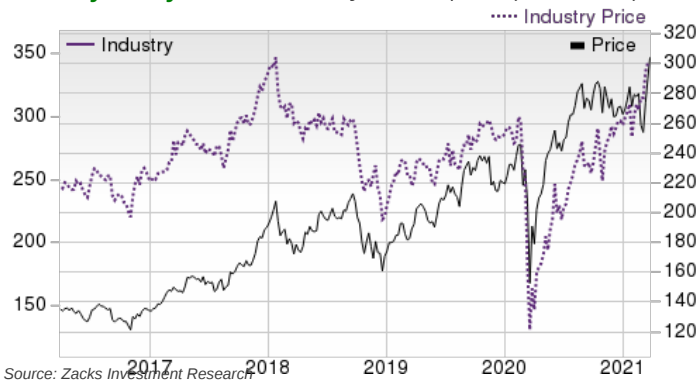
The table below shows summary valuation data for HD

| Valuation Multiples - HD |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                 | Current       | 23.9  | 21.91        | 30.16  | 22.42   |
|                          | 5-Year High   | 27.11 | 23.66        | 34.07  | 23.83   |
|                          | 5-Year Low    | 14.42 | 16.06        | 19.1   | 15.3    |
|                          | 5-Year Median | 20.28 | 19.04        | 23.75  | 17.95   |
| P/S F12M                 | Current       | 2.42  | 1.74         | 1.32   | 4.59    |
|                          | 5-Year High   | 2.58  | 1.74         | 1.34   | 4.59    |
|                          | 5-Year Low    | 1.44  | 1.08         | 0.84   | 3.21    |
|                          | 5-Year Median | 1.96  | 1.34         | 1.02   | 3.69    |
| EV/EBITDA TTM            | Current       | 17.11 | 13.25        | 19.02  | 17.67   |
|                          | 5-Year High   | 17.61 | 15.16        | 20.78  | 17.72   |
|                          | 5-Year Low    | 10.77 | 8.21         | 11.16  | 9.63    |
|                          | 5-Year Median | 13.92 | 11.13        | 13.23  | 13.35   |

As of 03/30/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



## Top Peers

| Company (Ticker)                      | Rec        | Rank |
|---------------------------------------|------------|------|
| Lumber Liquidators Holdings, Inc (LL) | Outperform | 3    |
| Beacon Roofing Supply, Inc. (BECN)    | Neutral    | 3    |
| Builders FirstSource, Inc. (BLDR)     | Neutral    | 3    |
| Fastenal Company (FAST)               | Neutral    | 4    |
| GMS Inc. (GMS)                        | Neutral    | 2    |
| Lowes Companies, Inc. (LOW)           | Neutral    | 3    |
| Tecnoglass Inc. (TGLS)                | Neutral    | 3    |
| Travis Perkins PLC (TVPKF)            | Neutral    | 2    |

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

| Industry Comparison Industry: Building Products - Retail |           |            |           | Industry Peers |           |         |
|----------------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                          | HD        | X Industry | S&P 500   | BLDR           | LOW       | TVPKF   |
| Zacks Recommendation (Long Term)                         | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                                  | 3         | -          | -         | 3              | 3         | 2       |
| VGM Score                                                | C         | -          | -         | A              | B         | -       |
| Market Cap                                               | 328.17 B  | 2.68 B     | 29.18 B   | 9.48 B         | 136.29 B  | 4.65 B  |
| # of Analysts                                            | 14        | 7.5        | 13        | 8              | 13        | 3       |
| Dividend Yield                                           | 2.17%     | 0.00%      | 1.34%     | 0.00%          | 1.26%     | 0.00%   |
| Value Score                                              | C         | -          | -         | B              | B         | A       |
| Cash/Price                                               | 0.02      | 0.07       | 0.06      | 0.04           | 0.04      | 0.14    |
| EV/EBITDA                                                | 17.08     | 10.92      | 16.52     | 16.04          | 14.91     | NA      |
| PEG F1                                                   | 2.08      | 1.55       | 2.37      | NA             | 1.55      | NA      |
| P/B                                                      | 99.47     | 2.51       | 3.97      | 4.65           | 96.89     | 1.51    |
| P/CF                                                     | 21.20     | 8.61       | 16.40     | 11.30          | 16.85     | 6.34    |
| P/E F1                                                   | 24.33     | 16.21      | 21.68     | 14.63          | 19.52     | 14.12   |
| P/S TTM                                                  | 2.48      | 1.00       | 3.33      | 1.11           | 1.52      | NA      |
| Earnings Yield                                           | 4.12%     | 6.17%      | 4.52%     | 6.84%          | 5.13%     | 7.10%   |
| Debt/Equity                                              | 10.86     | 1.14       | 0.66      | 1.39           | 14.38     | 0.23    |
| Cash Flow (\$/share)                                     | 14.38     | 3.49       | 6.78      | 4.06           | 11.27     | 2.91    |
| Growth Score                                             | B         | -          | -         | A              | B         | A       |
| Historical EPS Growth (3-5 Years)                        | 17.21%    | 16.06%     | 9.36%     | 39.61%         | 18.80%    | NA      |
| Projected EPS Growth (F1/F0)                             | 4.47%     | 11.09%     | 15.07%    | 4.28%          | 9.89%     | 116.58% |
| Current Cash Flow Growth                                 | 14.36%    | 20.86%     | 0.44%     | 35.97%         | 40.74%    | 36.59%  |
| Historical Cash Flow Growth (3-5 Years)                  | 12.01%    | 12.06%     | 7.37%     | 37.95%         | 12.12%    | 3.97%   |
| Current Ratio                                            | 1.23      | 2.07       | 1.39      | 2.07           | 1.19      | 1.31    |
| Debt/Capital                                             | 91.57%    | 53.22%     | 41.42%    | 58.08%         | 93.50%    | 18.93%  |
| Net Margin                                               | 9.74%     | 5.60%      | 10.59%    | 3.66%          | 6.51%     | NA      |
| Return on Equity                                         | 5,575.49% | 25.82%     | 14.86%    | 37.35%         | 230.16%   | NA      |
| Sales/Assets                                             | 2.04      | 1.67       | 0.50      | 2.21           | 1.84      | NA      |
| Projected Sales Growth (F1/F0)                           | 2.06%     | 1.03%      | 7.28%     | 69.29%         | -2.97%    | 13.20%  |
| Momentum Score                                           | D         | -          | -         | C              | B         | -       |
| Daily Price Change                                       | 0.87%     | 1.68%      | -0.10%    | 2.57%          | 0.74%     | 0.00%   |
| 1-Week Price Change                                      | 5.09%     | 0.93%      | 2.12%     | 1.57%          | 6.75%     | 0.00%   |
| 4-Week Price Change                                      | 17.11%    | 6.48%      | 4.39%     | 5.03%          | 16.54%    | 0.00%   |
| 12-Week Price Change                                     | 14.57%    | 16.86%     | 10.27%    | 15.64%         | 18.08%    | 1.65%   |
| 52-Week Price Change                                     | 63.26%    | 186.11%    | 61.32%    | 275.39%        | 120.82%   | 57.55%  |
| 20-Day Average Volume (Shares)                           | 5,559,176 | 416,287    | 2,376,431 | 2,220,928      | 4,542,444 | 0       |
| EPS F1 Estimate 1-Week Change                            | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                            | 0.14%     | 0.40%      | 0.00%     | 10.02%         | 0.40%     | 4.53%   |
| EPS F1 Estimate 12-Week Change                           | 2.45%     | 6.90%      | 2.20%     | 8.82%          | 5.45%     | 7.69%   |
| EPS Q1 Estimate Monthly Change                           | 0.00%     | 0.00%      | 0.00%     | 27.70%         | 0.00%     | NA      |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

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

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

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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