

## The Hershey Company(HSY)

**\$154.70** (As of 03/19/21)

Price Target (6-12 Months): **\$164.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

### Summary

Hershey has lagged the industry in the past three months. The company's International and Other unit remained soft mainly due to low footfall stemming from reduced travel and capacity restrictions amid COVID-19. Notably, net sales in the unit fell 17.3% year over year in fourth-quarter 2020. Apart from these, higher selling, marketing and administrative costs were a drag. Moreover, unfavorable foreign currency rates hurt sales. Nevertheless, the company is benefiting from strength in the North America unit, which remained sturdy in fourth-quarter. Well, earnings and sales grew year over year and beat the Zacks Consensus Estimate in the quarter. Moreover, Hershey expects its performance to be in line with its long-term growth algorithm in 2021. Also, the company is undertaking buyouts to augment portfolio strength and boost revenues.

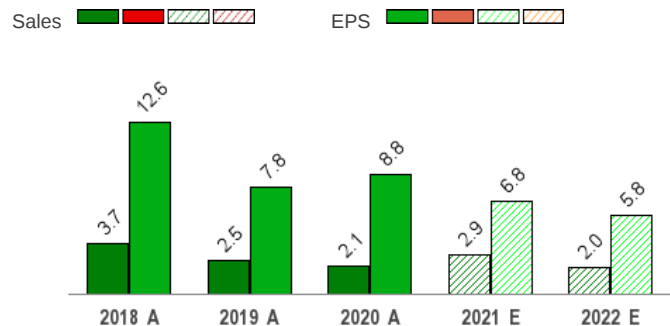
### Price, Consensus & Surprise



### Data Overview

|                                |                                 |
|--------------------------------|---------------------------------|
| 52-Week High-Low               | <b>\$156.95 - \$109.88</b>      |
| 20-Day Average Volume (Shares) | <b>1,035,838</b>                |
| Market Cap                     | <b>\$32.0 B</b>                 |
| Year-To-Date Price Change      | <b>1.6%</b>                     |
| Beta                           | <b>0.32</b>                     |
| Dividend / Dividend Yield      | <b>\$3.22 / 2.1%</b>            |
| Industry                       | <b>Food - Confectionery</b>     |
| Zacks Industry Rank            | <b>Top 45% (113 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>4.2%</b>       |
| Last Sales Surprise           | <b>3.1%</b>       |
| EPS F1 Estimate 4-Week Change | <b>-0.0%</b>      |
| Expected Report Date          | <b>04/22/2021</b> |
| Earnings ESP                  | <b>-0.2%</b>      |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 2,135 E | 1,812 E | 2,308 E | 2,221 E | 8,553 E |
| 2021 | 2,102 E | 1,797 E | 2,245 E | 2,225 E | 8,386 E |
| 2020 | 2,037 A | 1,707 A | 2,220 A | 2,185 A | 8,150 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.94 E | \$1.49 E | \$2.05 E | \$1.61 E | \$7.11 E |
| 2021 | \$1.82 E | \$1.43 E | \$1.90 E | \$1.56 E | \$6.72 E |
| 2020 | \$1.63 A | \$1.31 A | \$1.86 A | \$1.49 A | \$6.29 A |

\*Quarterly figures may not add up to annual.

|         |             |
|---------|-------------|
| P/E TTM | <b>24.6</b> |
| P/E F1  | <b>23.0</b> |
| PEG F1  | <b>3.0</b>  |
| P/S TTM | <b>3.9</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/19/2021. The report's text and the analyst-provided price target are as of 03/22/2021.

## Overview

Founded in 1894 and based in Hershey, PA, The Hershey Company (HSY), is the largest chocolate manufacturer in North America as well as a global leader in chocolate and non-chocolate confectionery. In addition, Hershey manufactures pantry items like baking ingredients, toppings and beverages; and gum and mint refreshment products; snack bites and mixes, as well as spreads.

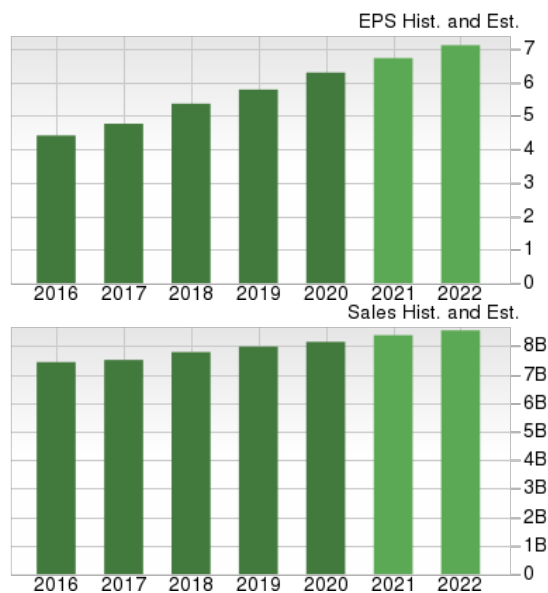
Hershey's operating segments comprise geographic regions — North America (contributed 88% to 2019 net sales) as well as International and Other (12%). International and Other segment includes operations in China, Mexico, Brazil, India and Malaysia, as well as export to markets in Asia, Latin America, Middle East, Europe, Africa and other regions).

The company's portfolio in North America includes a wide range of products, which are marketed and sold under brands like Hershey's, Reese's and Kisses, along with other popular chocolate and non-chocolate confectionery brands like Jolly Rancher, Almond Joy, Brookside, barkTHINS, Cadbury, Good & Plenty, Heath, Kit Kat, Lancaster, Payday, Rolo, Twizzlers, Whoppers and York.

In North America, the company also provides premium chocolates through Scharffen Berger and Dagoba brands. Further, it offers Ice Breakers mints and chewing gum, Breathsavers mints and Bubble Yum bubble gum as part of gum and mint products. Hershey's pantry and snack items include baking products, toppings and sundae syrups sold under the Hershey's, Reese's and Heath brands, as well as Hershey's and Reese's chocolate spreads, snack bites and mixes, Popwell half-popped corn snacks, baked and trans fat free Pirate's Booty snacks and other better-for-you snack brands such as Oatmega among others.

In the International and Other regions, Hershey produces and sells the same brands. It also provides other brands, which are marketed regionally. These include Pelon Pelo Rico confectionery products in Mexico, IO-IO snack products in Brazil, and Nutrine and Maha Lacto confectionery products and Jumpin and Sofit beverage products in India.

The company manufactures and markets several products through licensing agreements with Kraft Foods Ireland (York, Peter Paul Almond Joy and Peter Paul Mounds), Cadbury U.K. (Cadbury and Caramello) and Nestle (Kit-Kat and Rolo).



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **North America Strength Aids Q4 Results, Bright View:** The company has been benefiting from strength in the North America segment, which remained sturdy in fourth-quarter 2020. Notably, North America (the United States and Canada) net sales increased 8.9% year over year to \$1,973.9 million. Price realization contributed 1.1 point benefit, while volumes contributed 7.9 points driven by solid seasonal performance in the unit. Moreover, favorable currency boosted sales in the unit by 0.1 point. In fact, the company anticipates the recent momentum in the North America segment to continue into first-quarter 2021 on the back of increased sales of take home and seasonal chocolate along with added marketplace share gains.

Hershey has been undertaking buyouts to augment portfolio strength as well as boost revenues. Also, the company regularly brings innovation to its core brands to meet consumer demand.

Well, strength in the North America segment boosted overall results with the top and the bottom line surpassing the Zacks Consensus Estimate in the fourth quarter. Moreover, sales and earnings increased year over year. Notably, adjusted earnings per share (EPS) of \$1.49 increased 16.4%. Further, consolidated net sales of \$2,185.2 million increased 5.7%. Volume growth was 5.7 point. Organic sales on a constant-currency (cc) basis increased 6.3%. Also, the company gained confectionary market share of nearly 160 basis points (bps) in the United States. For 2021, Hershey expects its performance to be in line with its long-term growth algorithm. The company anticipates net sales to rise 2-4% and projects EPS growth of 6-8% in 2021.

- ▲ **Gains From Buyouts:** Hershey has been undertaking buyouts to augment portfolio strength as well as boost revenues. The company acquired ONE Brands, LLC in September 2019 to solidify its footing in the snacking category. Prior to this, the company acquired Pirate Brands in September 2018 to bolster its snacking business. Additionally, the company has been gaining from Amplify Snack Brands, which was acquired in January 2018, to expand in the snacking category. In earlier developments, the acquisition of New York-based barkTHINS (April 2016) premium chocolate snacking brand has been aiding the company's better-for-you snacks portfolio. The SkinnyPop buyout has also been driving growth in the ready-to-eat popcorn category.

- ▲ **Strong Brand Portfolio & Focus on Innovation:** Hershey is the largest producer of quality chocolate products in the United States. It markets some of the world's leading brands which enjoy widespread consumer acceptance. The company is also a global leader in sugar confectionery products, which is attractive category as confectionery products are easily available, affordable and highly indulgent, thus making the industry almost recession resistant. Hershey's core brands — Hershey's, Reese's, Hershey's Kisses, Jolly Rancher, Brookside, Sofit and Ice Breakers — have been growing strongly on the back of advertising investments, in-store merchandising, and programming and innovation.

In fact, Hershey regularly brings innovation to its core brands to meet consumer demand and needs that are not addressed by its current portfolio. In its fourth-quarter earnings call, management highlighted that it has an impressive lineup of innovations for 2021. In this regard, the company's recently-introduced Reese's Stuffed with Pretzels and Kit Kat Mocha products are yielding results. Further, Hershey is optimistic about the expansion of better-for-you confectionery platform with the launch of Kit Kat Thins as well as Zero-Sugar and Organic lines during spring of 2021. The company also informed that its sugar free platform has been yielding. An important strategy of the company is to create a unique and holistic portfolio for every season, which can meet consumers' seasonal shopping needs.

- ▲ **Pricing Strategies:** Hershey has been undertaking strategic pricing initiatives to improve its performance. Notably, price realization benefited Hershey's top line by 0.6 points in the fourth quarter of 2020. Improved pricing also boosted the adjusted gross margin which expanded 50 basis points (bps) to 43.9% in the quarter. We believe that, persistence of such trends is likely to keep driving the company's performance in the future.

- ▲ **Financial Position:** Hershey's long-term debt of almost \$4,090 million at the end of the fourth quarter of 2020 (as of Dec 31, 2020) declined from \$4,093.2 million reported in the previous quarter. Moreover, the company had cash and cash equivalents of \$1,144 million as of the end of the fourth quarter, while its short-term debt and current portion of long-term debt stood at \$512.9 million. Further, the company's times interest earned ratio is at 11, higher than the preceding quarter's ratio of 10.7. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.

Notably, Hershey looks well placed on the dividend-payout front. Along with its fourth-quarter earnings release, the company declared a quarterly dividend of 80.4 cents per share for its common stock and 73.1 cents for Class B common stock. These are payable on Mar 15, 2021 to shareholders of record as of Feb 19. Notably, this marks the company's 365th and 146th straight dividend payout on its common stock and Class B common stock, respectively. Currently, Hershey has a dividend payout of 51.1%, dividend yield of 2.1% and free cash flow yield of 4.8%. With an annual free cash flow return on investment of 27.1%, ahead of the industry's 21.3%; the dividend payment is likely to be sustainable.

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## Reasons To Sell:

- ▼ **International Segment Weak:** Hershey is seeing weakness in the International segment for a while now. In fourth-quarter 2020, net sales in the segment fell 17.3% to \$211.3 million. On a cc basis, net sales declined 13.1%. Volumes hit sales by 10.1 points, mainly due to lower sales in the company's owned retail locations. Although retail locations reopened during the third quarter, footfall was low stemming from reduced consumer travel and capacity restrictions imposed by government. Also, unfavorable net price realization of 3.0 points was a drag. Combined net sales in Mexico, Brazil, China and India, dropped 28.7%. Excluding currency headwinds, combined organic sales from these markets fell nearly 19.8% at cc. Although Hershey anticipates a stable sales trend in majority of its markets in 2021, the speed and magnitude of recovery is uncertain in the segment. Though shares of Hershey have gained 4.1% in the past three months, it has lagged the industry's growth of 5.5%.

Hershey is seeing weakness in the International segment for a while. Also, higher costs and currency headwinds are a concern.
  - ▼ **Currency Headwinds:** Hershey remains exposed to volatile currency movements owing to its international presence. Markedly, currency had an adverse impact of 0.4 points on the company's top line in the fourth quarter of 2020. We believe that, persistence of this trend is a concern for the company.
  - ▼ **Cost Woes:** During the fourth quarter of fiscal 2020, selling, marketing and administrative costs increased 4% year over year due to increased advertising in the North America segment. Notably, advertising and related consumer marketing expenses increased 4.9%. Further, selling, marketing and administrative costs excluding advertising and related consumer marketing increased 3.5%. Charges in relation to its International Optimization Program were a reason.
  - ▼ **Stiff Competition:** Hershey operates in highly competitive markets, along with several global multinational, national, regional and local firms. The company has some competitors, which are big entities with considerable resources and significant international operations. Well, Hershey competes on the basis of product innovation, product quality, price, efficacy of marketing and promotional strategies and the ability to cater to consumer preferences among other things. Of late, the company also witnessed heightened competition from other snack items, which in turn puts pressure on the confectionery category.
  - ▼ **Soft Macroeconomic Environment:** The North American food industry remains exposed to shifting consumer preferences (for example, shift toward products with less artificial sweeteners, sodium and saturated fat), changes in consumer dynamics, demographic shifts, and also a spending shift toward lower-priced products. Further, Hershey is dependent on consumer discretionary spending environment, which is affected by the general macroeconomic conditions like consumer confidence and employment levels.
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## Last Earnings Report

### Hershey's Q4 Earnings Surpass Estimates, Sales Up

Hershey reported robust fourth-quarter 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, sales and earnings increased year over year. Results gained from solid performance in the North America segment.

#### Q4 in Details

Adjusted EPS of \$1.49 came ahead of the Zacks Consensus Estimate of \$1.43 and increased 16.4% year over year.

Consolidated net sales of \$2,185.2 million increased 5.7% year over year and surpassed the Zacks Consensus Estimate of \$2,120.1 million. Price realization and volume growth were 0.6 point and 5.7 point, respectively. However, the impact of divestitures was negative to the tune of 0.2 point due to divestitures of Krave and the Scharffen Berger and Dagoba brands. Also, unfavorable foreign currency rates affected sales by 0.4 point. Further, organic sales on a constant-currency (cc) basis increased 6.3%.

Adjusted gross margin expanded 50 basis points (bps) to 43.9% on the back of favorable pricing and volume. Selling, marketing and administrative costs increased 4% due to increased advertising in the North America segment. Advertising and related consumer marketing expenses increased 4.9%. Selling, marketing and administrative costs excluding advertising and related consumer marketing increased 3.5%. Charges in relation to its International Optimization Program were a reason.

Adjusted operating profit amounted to \$429.3 million, up 15.9% from the prior-year quarter's figure. Adjusted operating profit margin expanded 170 bps to 19.6% led by solid volume gains in the North America segment.

#### Segmental Update

**North America** (the United States and Canada) net sales increased 8.9% year over year to \$1,973.9 million. Markedly, price realization contributed 1.1 point benefit, while volumes contributed 7.9 points driven by solid seasonal performance. Moreover, favorable currency boosted sales in the unit by 0.1 point. However, impact of divestiture dented the unit by 0.2 point.

Net sales in the **International and Other** segment fell 17.3% to \$211.3 million. On a cc basis, net sales declined 13.1%. Volumes hit sales by 10.1 points, mainly due to lower sales in the company's owned retail locations. Although retail locations reopened during the third quarter of 2020, footfall was low stemming from reduced consumer travel and capacity restrictions imposed by government. Combined net sales in Mexico, Brazil, China and India, dropped 28.7%. Excluding currency headwinds, combined organic sales from these markets decreased nearly 19.8% at cc. Also, unfavorable net price realization of 3.0 points was a drag.

#### Financials

Hershey ended the quarter with cash and cash equivalents of \$1,144 million, long-term debt of \$4,089.8 million and total shareholders' equity of \$2,237.9 million.

In a separate press release, the company declared a quarterly dividend of 80.4 cents per share for its common stock and 73.1 cents for Class B common stock. These are payable on Mar 15, 2021 to shareholders of record as of Feb 19. Notably, this marks the company's 365th and 146th straight dividend payout on its common stock and Class B common stock, respectively.

#### 2021 Outlook

Hershey expects its 2021 performance to be in line with its long-term growth algorithm. For 2021, it expects net sales to rise 2-4% and projects EPS growth of 6-8%.

In the North America segment, the company anticipates the recent momentum to continue into the first quarter of 2021 on the back of increased sales of take home and seasonal chocolate along with added marketplace share gains. However, management expects the second-quarter and second-half performances to be moderate owing to strong 2020 performance. In the International & Other segment, Hershey anticipates a stable sales trend in majority of its markets. That said the speed and magnitude of recovery remains uncertain for the segment. Also, the company expects capital expenditure of nearly \$550 million owing to key initiatives like the ongoing ERP transformation and supply chain initiatives.

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Feb 04, 2021 |
| Sales Surprise   | 3.07%        |
| EPS Surprise     | 4.20%        |
| Quarterly EPS    | 1.49         |
| Annual EPS (TTM) | 6.29         |

## Valuation

Hershey's shares are up 2% in the year-to-date period and 41.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2.9% and the Zacks Consumer Staples sector gained 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector increased 42.5% and 49.8%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 79.6% in the past year.

The stock is currently trading at 22.73X forward 12-month earnings, which compares to 20.92X for the Zacks sub-industry, 20.02X for the Zacks sector and 22.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 16.46X, with a 5-year median of 21.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$164 price target reflects 24.09X forward 12-month earnings.

The table below shows summary valuation data for HSY

| Valuation Multiples - HSY |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 22.73 | 20.92        | 20.02  | 22.17   |
|                           | 5-Year High   | 27.02 | 24.42        | 22.4   | 23.8    |
|                           | 5-Year Low    | 16.46 | 15.57        | 16.5   | 15.3    |
|                           | 5-Year Median | 21.91 | 19.66        | 19.52  | 17.9    |
| P/S F12M                  | Current       | 3.81  | 2.54         | 10.62  | 4.52    |
|                           | 5-Year High   | 4.2   | 2.73         | 11.95  | 4.52    |
|                           | 5-Year Low    | 2.35  | 1.62         | 8.58   | 3.21    |
|                           | 5-Year Median | 3.03  | 2.15         | 10.45  | 3.69    |
| EV/EBITDA F12M            | Current       | 16.12 | 10.48        | 35.53  | 17.22   |
|                           | 5-Year High   | 18.02 | 12.21        | 38.18  | 18.82   |
|                           | 5-Year Low    | 11.77 | 7.32         | 25.79  | 13.03   |
|                           | 5-Year Median | 13.74 | 9.59         | 34.04  | 15.77   |

As of 03/19/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 45% (113 out of 253)



## Top Peers

| Company (Ticker)                        | Rec          | Rank |
|-----------------------------------------|--------------|------|
| The Hain Celestial Group, Inc. (HAIN)   | Outperform   | 2    |
| CONAGRA BRANDS (CAG)                    | Neutral      | 4    |
| General Mills, Inc. (GIS)               | Neutral      | 3    |
| Kellogg Company (K)                     | Neutral      | 3    |
| McCormick & Company, Incorporated (MKC) | Neutral      | 3    |
| The Simply Good Foods Company (SMPL)    | Neutral      | 3    |
| Hostess Brands, Inc. (TWNK)             | Neutral      | 3    |
| B&G Foods, Inc. (BGS)                   | Underperform | 5    |

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

| Industry Comparison Industry: Food - Confectionery |           |            |           | Industry Peers |         |           |
|----------------------------------------------------|-----------|------------|-----------|----------------|---------|-----------|
|                                                    | HSY       | X Industry | S&P 500   | MKC            | SMPL    | TWNK      |
| Zacks Recommendation (Long Term)                   | Neutral   | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                            | 3         | -          | -         | 3              | 3       | 3         |
| VGM Score                                          | B         | -          | -         | C              | C       | B         |
| Market Cap                                         | 32.05 B   | 2.70 B     | 28.48 B   | 23.10 B        | 3.09 B  | 1.93 B    |
| # of Analysts                                      | 8         | 6          | 13        | 6              | 7       | 6         |
| Dividend Yield                                     | 2.08%     | 0.00%      | 1.38%     | 1.57%          | 0.00%   | 0.00%     |
| Value Score                                        | C         | -          | -         | C              | D       | B         |
| Cash/Price                                         | 0.04      | 0.06       | 0.06      | 0.02           | 0.03    | 0.09      |
| EV/EBITDA                                          | 18.05     | 19.98      | 15.90     | 22.36          | 34.25   | 15.40     |
| PEG F1                                             | 3.02      | 3.00       | 2.36      | 4.47           | NA      | NA        |
| P/B                                                | 14.39     | 2.75       | 3.90      | 5.86           | 2.46    | 1.19      |
| P/CF                                               | 19.99     | 23.59      | 15.91     | 24.90          | 27.20   | 12.78     |
| P/E F1                                             | 23.19     | 23.02      | 21.22     | 29.35          | 31.50   | 17.43     |
| P/S TTM                                            | 3.93      | 3.69       | 3.30      | 4.12           | 3.45    | 1.90      |
| Earnings Yield                                     | 4.34%     | 4.34%      | 4.61%     | 3.41%          | 3.16%   | 5.75%     |
| Debt/Equity                                        | 1.83      | 0.57       | 0.67      | 0.95           | 0.46    | 0.69      |
| Cash Flow (\$/share)                               | 7.74      | 1.17       | 6.78      | 3.48           | 1.19    | 1.16      |
| Growth Score                                       | A         | -          | -         | C              | C       | C         |
| Historical EPS Growth (3-5 Years)                  | 8.98%     | 8.86%      | 9.32%     | 12.02%         | NA      | 8.74%     |
| Projected EPS Growth (F1/F0)                       | 6.86%     | 11.50%     | 14.54%    | 4.18%          | 12.56%  | 13.11%    |
| Current Cash Flow Growth                           | 6.70%     | 18.50%     | 0.72%     | 5.89%          | 100.26% | 30.30%    |
| Historical Cash Flow Growth (3-5 Years)            | 2.34%     | 2.34%      | 7.32%     | 10.81%         | NA      | 8.87%     |
| Current Ratio                                      | 1.57      | 2.83       | 1.39      | 0.68           | 3.70    | 1.95      |
| Debt/Capital                                       | 64.63%    | 36.01%     | 41.42%    | 48.79%         | 31.32%  | 40.70%    |
| Net Margin                                         | 15.69%    | 9.77%      | 10.59%    | 13.34%         | 6.92%   | 6.37%     |
| Return on Equity                                   | 68.05%    | 7.58%      | 14.75%    | 20.17%         | 7.36%   | 6.23%     |
| Sales/Assets                                       | 0.90      | 0.46       | 0.51      | 0.51           | 0.44    | 0.31      |
| Projected Sales Growth (F1/F0)                     | 2.89%     | 3.73%      | 7.02%     | 8.11%          | 12.54%  | 4.57%     |
| Momentum Score                                     | F         | -          | -         | D              | B       | C         |
| Daily Price Change                                 | -0.88%    | -0.88%     | -0.12%    | 0.25%          | -1.95%  | 0.75%     |
| 1-Week Price Change                                | 1.37%     | 1.37%      | 2.96%     | 2.82%          | 7.88%   | 0.00%     |
| 4-Week Price Change                                | 1.12%     | 1.12%      | 3.72%     | 0.06%          | 12.99%  | -2.76%    |
| 12-Week Price Change                               | 3.17%     | 7.93%      | 8.75%     | -7.41%         | 7.93%   | 4.67%     |
| 52-Week Price Change                               | 27.02%    | 44.29%     | 72.55%    | 37.77%         | 109.21% | 44.29%    |
| 20-Day Average Volume (Shares)                     | 1,035,838 | 802,808    | 2,394,762 | 1,277,852      | 802,808 | 1,876,420 |
| EPS F1 Estimate 1-Week Change                      | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 4-Week Change                      | -0.04%    | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 12-Week Change                     | 2.40%     | 2.40%      | 2.10%     | 0.80%          | 8.09%   | -0.24%    |
| EPS Q1 Estimate Monthly Change                     | -0.55%    | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 10.00%    |

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    | C |
| Growth Score   | A |
| Momentum Score | F |
| VGM Score      | B |

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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