

## Intuit Inc. (INTU)

**\$374.80** (As of 01/26/21)

Price Target (6-12 Months): **\$319.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 12/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM: C

Value: D

Growth: A

Momentum: C

## Summary

Intuit's near-term prospect looks gloomy as the global lockdown amid the coronavirus crisis has affected small businesses, posing risks to its revenue growth. Additionally, higher costs and expenses due to increased investments in marketing and engineering teams are likely to continue impacting bottom-line results in the near term. The stock has underperformed the industry over the past year. Nonetheless, Intuit is benefiting from strong momentum in online ecosystem revenues and solid professional tax revenues. The TurboTax Live offering is also driving growth in the Consumer tax business. Solid momentum in the company's lending product, QuickBooks Capital, remains a positive. Moreover, the company's strategy of shifting its business to cloud-based subscription model will help generate stable revenues over the long run.<

## Price, Consensus & Surprise

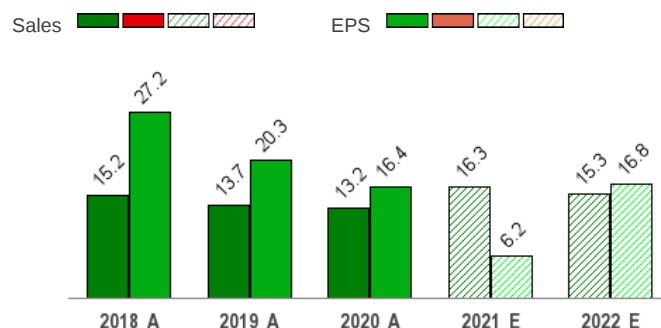


Source: Zacks Investment Research

## Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$398.12 - \$187.68         |
| 20-Day Average Volume (Shares) | 1,190,824                   |
| Market Cap                     | \$98.4 B                    |
| Year-To-Date Price Change      | -1.4%                       |
| Beta                           | 0.99                        |
| Dividend / Dividend Yield      | \$2.36 / 0.6%               |
| Industry                       | Computer - Software         |
| Zacks Industry Rank            | Bottom 47% (133 out of 253) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 147.4%     |
| Last Sales Surprise           | 9.9%       |
| EPS F1 Estimate 4-Week Change | -0.1%      |
| Expected Report Date          | 02/22/2021 |
| Earnings ESP                  | 1.2%       |
| P/E TTM                       | 44.6       |
| P/E F1                        | 44.9       |
| PEG F1                        | 2.8        |
| P/S TTM                       | 12.6       |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 | 1,689 E | 2,272 E | 4,614 E | 1,655 E | 10,300 E |
| 2021 | 1,323 A | 1,884 E | 4,211 E | 1,501 E | 8,930 E  |
| 2020 | 1,165 A | 1,696 A | 3,002 A | 1,816 A | 7,679 A  |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.19 E | \$1.55 E | \$6.84 E | \$0.15 E | \$9.75 E |
| 2021 | \$0.94 A | \$1.28 E | \$6.07 E | \$0.02 E | \$8.35 E |
| 2020 | \$0.41 A | \$1.16 A | \$4.49 A | \$1.81 A | \$7.86 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 01/26/2021. The reports text is as of 01/27/2021.

## Overview

Headquartered in Mountain View, CA, Intuit Inc. is a business and financial software company that develops and sells financial, accounting and tax preparation software and related services for small businesses, consumers and accounting professionals globally. The company has offices in the United States, Canada, India, the United Kingdom, Singapore, Australia, and other locations.

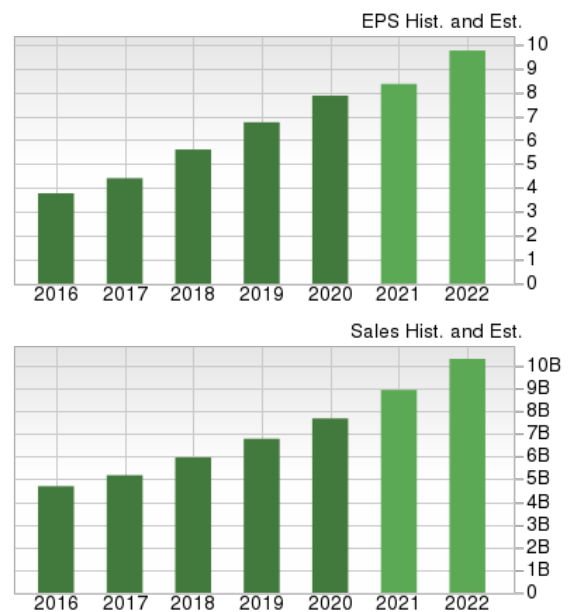
In fiscal 2020, Intuit generated total revenues of \$7.68 billion. The company has three reportable segments: Small Business and Self-Employed Group, Consumer, and Strategic Partner.

Small Business and Self-Employed Group (52.7% of fiscal 2020 revenues) segment serves small businesses and self-employed people around the world, and the accounting professionals who serve and advise them. Intuit's offerings include QuickBooks financial and business-management online services and desktop software, payroll solutions, merchant payment-processing solutions, and financing for small businesses.

Consumer (40.8% of fiscal 2020 revenues) segment offers DIY and assisted TurboTax income-tax preparation products and services. These solutions are sold in the United States and Canada. Intuit's Mint and Turbo offerings serve consumers and help them understand and improve their financial lives by offering a view of their financial health.

Strategic Partner (6.5% of fiscal 2020 revenues) serves professional accountants in the United States and Canada, who are essential to both small businesses' success and tax preparation and filing. Intuit's professional tax offerings include Lacerte, ProSeries, ProFile, and ProConnect Tax Online.

In the Small Business and Self-Employed segment, Intuit competes with companies such as The Sage Group. In payroll, it competes with Automatic Data Processing and Paychex, among others. In the area of merchant services, the company's rivals are financial institutions like Wells Fargo, JP Morgan Chase and Bank of America. In the Consumer Segment, Intuit faces intense competition from tax preparation service provider H&R Block.



Source: Zacks Investment Research

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## Reasons To Sell:

- ▼ Intuit's near-term prospect looks gloomy as the global lockdown amid the coronavirus crisis has affected small businesses, consequently posing risks to the company's revenue growth. Small businesses are pushing back their payroll-related investments due to global economic and business uncertainty caused by the pandemic.
- ▼ Intuit's high costs and expenses remain a major concern. The company has increased investments in engineering and marketing teams to grab the growing opportunity globally, making us cautious about the company's bottom-line results. Costs associated with the Credit Karma acquisition is likely to further elevate expenses. The company lowered its fiscal 2021 earnings outlook to \$8.20-\$8.40 per share from \$8.40-\$8.55.
- ▼ Intuit's market share and revenues necessarily depend on client relationships and the number of contracts it secures. This, along with the limited scope for product differentiation, makes the renegotiation of large contracts extremely important. As a result, competition from strong companies like H&R Block and Microsoft is a concern. This also increases pricing pressure.
- ▼ Intuit's business is seasonal in nature and typically generates stronger sales during the second and third quarters, which are characterized by the U.S. tax season. As a result, the company is exposed to significant risks if the seasons fail to deliver expected operating performance. Furthermore, in the first and fourth quarters, the company incurs losses as revenues from the tax business remain at their lowest point during these periods. However, its operating expenses remain consistent throughout the year.

Rising costs and expenses owing to higher investments in engineering and marketing is anticipated to hurt Intuit's near-term profitability. Also, heightening competition from other payroll solution providers is a concern.

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## Risks

- Intuit has two main products – QuickBooks, which offers financial and business management online services and desktop software to small businesses, and TurboTax, which offers income tax preparation products and services. The space in which Intuit operates has huge growth opportunity. There are over 29 million small and medium businesses in the U.S. alone. Moreover, the company with its QuickBooks Online Advanced solution is now targeting the midmarket. Furthermore, the number of individuals preferring to file their income tax themselves is increasing rapidly, thereby increasing the scope for Intuit's TurboTax software.
  - For the last few years, Intuit is trying to shift its business model from selling software to cloud-based subscription providers. Cloud-based solutions, as against software-based ones, have gained popularity as they offer anywhere, anytime access. Cloud is a flourishing part of the technology space and has been gaining momentum in recent years. It is a process by which data or software is stored outside of a computer and is accessible from anywhere any time via the Internet. This revolutionary idea can lower IT costs of companies by cutting down the need for servers and staff. Per Gartner's latest projections, the global software as a service (SaaS) market is expected to grow to 2.6% year over year to \$104.67 billion in 2020. With its SaaS-based QuickBooks and Online Tax applications, we think that Intuit is well-positioned to lead the market.
  - Over the last few years, Intuit has divested some of its non-core businesses including Quicken, QuickBase and Demandforce in a move to focus more on its core tax and accounting businesses. We believe that Intuit's initiatives have provided it the much needed funds to invest in and focus more on the fast-growing online businesses. The company looks forward to add more recurring revenues within its Consumer Tax and Small Business segments, capitalizing on the ongoing shift toward digital solutions. Intuit's efforts to convert itself into a cloud-based tax and accounting solution provider are encouraging.
  - Over the past few years, Intuit is trying to expand its international operations. The company has expanded in France, Brazil and India. With its market leading product portfolio that includes QuickBooks and TurboTax, we believe the company is well poised to penetrate in new regions and increase its international contribution to the total revenue.
  - The acquisition of Credit Karma is anticipated to aid the expansion of Intuit's customer base by adding 110 million Credit Karma customers to its existing 50-million user base. With this acquisition, Intuit will help its customers better manage their personal finance requirements. It will enable Intuit's customers find suitable financial products, give them access to high-yield savings accounts, help pay down their debts and maximize their tax refunds. Intuit expects Credit Karma to add \$545-\$580 million to the company's fiscal 2021 revenues. The acquisition is likely to generate segment operating income between \$15 million and \$35 million.
  - Intuit is a cash rich company with a strong balance sheet. As of Oct 31, 2020, the company had cash and cash equivalents of nearly \$5.8 billion, while the long-term debt (including current maturities) was \$2.36 billion. This translates into a net cash balance of approximately \$3.44 billion which can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders. Additionally, Intuit's total debt to total capital ratio of 0.28 is significantly lower than the industry average of 0.41. The company's times interest earned ratio of 120 is way higher than the industry average of 18.8.
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## Last Earnings Report

### Intuit Q1 Earnings & Revenues Top Estimates, Increase Y/Y

Intuit reported first-quarter fiscal 2021 non-GAAP earnings of 94 cents per share, which beat the Zacks Consensus Estimate of 38 cents. Moreover, the bottom-line figure soared 129% from the year-ago quarter's adjusted earnings of 41 cents per share.

In addition, revenues of \$1.32 billion outpaced the consensus mark of \$1.20 billion as well as increased 14% year over year.

Quarter Ending 10/2020

|                  |              |
|------------------|--------------|
| Report Date      | Nov 19, 2020 |
| Sales Surprise   | 9.89%        |
| EPS Surprise     | 147.37%      |
| Quarterly EPS    | 0.94         |
| Annual EPS (TTM) | 8.40         |

### Quarter in Detail

Segment wise, Small Business and Self-Employed Group revenues jumped 13% year over year to \$1.18 billion. This rise was primarily driven by solid growth in customers for QuickBooks Online and favorable mix-shift.

Total Online Ecosystem revenues climbed 28% year on year to \$621 million. QuickBooks Online Accounting revenues were up 28% year over year to \$392 million. Online Services revenues, which includes payroll, payments, time tracking and capital, grew 17% year over year to \$229 million.

Within QuickBooks Online payroll, a mix-shift to Intuit's full-service offering, was a tailwind. Also, within QuickBooks Online payments, continued uptick in customer base and an increase in charge volume per customer drove revenues.

Total Desktop ecosystem revenues climbed 3% year on year to \$560 million in the reported quarter, reflecting benefits of additional revenues from license updates and price increases. Within Desktop ecosystem, revenues from QuickBooks Desktop Enterprise grew at mid-single-digit pace.

In the fiscal first quarter, revenues from Consumer Group were up 19% year over year to \$119 million, highlighting benefits of expansion in the DIY strategy and focus on transforming assisted segment with TurboTax Live.

Meanwhile, Strategic Partner Group backed by professional tax, generated revenues of \$23 million, up 21% year over year.

Management is optimistic on growing the clout of TurboTax Live and QuickBooks Live, which is expected to aid the company acquire new customers, with enhanced engagement and drive average revenue per customer or ARPC. This is likely to be accretive to the company's Consumer business in the days ahead.

Intuit also continued to fortify the application of AI to create tools to automate repetitive tasks, increase efficiency and improve customer experience.

Intuit's non-GAAP operating income increased to \$334 million from the \$129 million reported in the year-ago quarter. Non-GAAP operating margin more than doubled to 25.3% from the 11.1% witnessed in first-quarter fiscal 2020.

### Balance Sheet and Cash Flow

As of Oct 31, 2020, Intuit's cash and cash equivalents were \$5.8 billion compared with \$6.44 billion as of Jul 31, 2020. The company intends to use \$3.6 billion of cash and cash equivalents for paying consideration for the Credit Karma acquisition.

Notably, this February, Intuit agreed to buy Credit Karma for a total consideration of \$7.1 billion. In June, the company issued \$2 billion in senior notes to fund a portion of the acquisition and for other general corporate purposes.

The company did not repurchase any stock during the reported quarter. Intuit has \$2.4 billion remaining on its authorization.

Additionally, Intuit announced that its board of directors has approved a quarterly cash dividend of 59 cents per share to be payable on Jan 19, 2021. The newly-approved cash dividend represents a year-over-year increase of 11%.

### Outlook

For the fiscal second quarter, Intuit expects revenues to increase between 8% and 9% on a year-over-year basis. Adjusted earnings for the quarter are estimated in the range of \$1.31-\$1.34 per share.

For fiscal 2021, it projects revenues in the band of \$8.265-\$8.415 billion, calling for year-over-year growth between 8% and 10%. Segment wise, Small Business and Self-Employed Group sales are anticipated to grow in the range of 8-10%, Consumer Group in the 9-10% band, and ProConnect Group between flat to increase of 1%.

The fiscal 2021 adjusted earnings are projected between \$8.40 per share and \$8.55 per share.

## Recent News

On Dec 7, Intuit updated its full fiscal year 2021 and second fiscal quarter guidance to reflect the completion of the Credit Karma acquisition. The company now projects second-quarter and fiscal 2021 revenues of \$1.935-\$1.965 billion and \$8.810-\$8.995 billion. The company updated its adjusted earnings guidance range for second-quarter and fiscal 2021 to \$1.25-\$1.31 per share and \$8.20-\$8.40 per share, respectively.

On Nov 25, Intuit and Credit Karma jointly announced that they have entered into a consent agreement with the U.S. Department of Justice (DOJ), which gives them clearance for their previously announced merger.

On Nov 19, Intuit launched HubSpot for the QuickBooks platform, which will facilitate smooth digital transformation to cloud for business.

On Nov 12, Intuit introduced new enhancements to Intuit ProConnect, ProSeries, and Lacerte Tax, which will enable customers work smarter in the upcoming tax season.

On Oct 22, Intuit expanded the capabilities of QuickBooks Online platform through introducing two new offerings – QuickBooks Insurance and 401(k) powered by Guideline.

On Oct 21, Intuit announced the appointment of Tekedra Mawakana to its board of directors.

On Sep 28, Intuit announced a new integration for QuickBooks with Amazon Business through which all Amazon Business purchases will be automatically imported into QuickBooks, with data being refreshed multiple times per day.

On Sep 23, Intuit launches omni-channel sales platform, QuickBooks Commerce.

On Aug 6, Intuit and Bill.com announced an extension of their long-standing partnership. The enhanced partnership will add advanced bill-payment and workflow-automation capabilities for QuickBooks Online Advanced (QBOA) customers as part of Intuit's application ecosystem, in addition to continued support for the Simple Bill Pay service in QuickBooks Online. Beginning Aug 17, Bill.com and Intuit will be offering a three-month subscription-free promotion to QBOA customers signing up for Bill.com, running through Nov 20.

On Jul 29, Intuit launched QuickBooks Cash, a business bank account that earns high-yield interest. QuickBooks Cash has no account-opening fees, maintenance fees, minimum balances, overdraft fees, or other recurring fees.

On Jun 25, Intuit announced the pricing of senior notes offering worth \$2 billion.

## Valuation

Shares of Intuit have increased 26.3% in the 6-month period and 30.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector grew 13.2% and 30.5%, respectively, in the last six months. Over the past year, the sub-industry and the sector have gained 32.3% and 41.3%, respectively.

The S&P 500 Index has gained 21% in the 6-month period and 19.9% in the past year.

The stock is currently trading at 41.46X forward 12-month earnings, which compares to 32.90X for the Zacks sub-industry, 29.40X for the Zacks sector and 23.19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 60.95X and as low as 28.36X with a 5-year median of 38.20X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$319 price target reflects 35.24X forward 12-month earnings.

The table below shows the summary valuation data for INTU

| Valuation Multiples - INTU |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 41.46 | 32.90        | 29.40  | 23.19   |
|                            | 5-Year High   | 60.95 | 35.41        | 29.40  | 23.80   |
|                            | 5-Year Low    | 28.36 | 19.26        | 16.94  | 15.30   |
|                            | 5-Year Median | 38.20 | 25.96        | 19.93  | 17.82   |
| P/S F12M                   | Current       | 10.25 | 8.90         | 5.04   | 4.58    |
|                            | 5-Year High   | 11.36 | 8.90         | 5.04   | 4.58    |
|                            | 5-Year Low    | 4.93  | 4.26         | 2.77   | 3.20    |
|                            | 5-Year Median | 7.85  | 6.06         | 3.47   | 3.67    |
| P/B TTM                    | Current       | 18.78 | 11.44        | 9.56   | 6.64    |
|                            | 5-Year High   | 43.30 | 12.29        | 9.56   | 6.64    |
|                            | 5-Year Low    | 13.61 | 4.52         | 4.09   | 3.73    |
|                            | 5-Year Median | 20.92 | 7.98         | 5.69   | 4.94    |

As of 01/26/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 47% (133 out of 253)



## Top Peers

| Company (Ticker)                        | Rec     | Rank |
|-----------------------------------------|---------|------|
| Adobe Inc. (ADBE)                       | Neutral | 3    |
| Autodesk, Inc. (ADSK)                   | Neutral | 2    |
| Citrix Systems, Inc. (CTXS)             | Neutral | 3    |
| Dassault Systemes SA (DASTY)            | Neutral | 3    |
| Open Text Corporation (OTEX)            | Neutral | 3    |
| Synopsys, Inc. (SNPS)                   | Neutral | 3    |
| SS&C Technologies Holdings, Inc. (SSNC) | Neutral | 3    |
| VMware, Inc. (VMW)                      | Neutral | 3    |

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

| Industry Comparison Industry: Computer - Software |              |            |           | Industry Peers |         |           |
|---------------------------------------------------|--------------|------------|-----------|----------------|---------|-----------|
|                                                   | INTU         | X Industry | S&P 500   | DASTY          | SSNC    | VMW       |
| Zacks Recommendation (Long Term)                  | Underperform | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                           | 5            | -          | -         | 3              | 3       | 3         |
| VGM Score                                         | C            | -          | -         | F              | B       | B         |
| Market Cap                                        | 98.38 B      | 2.25 B     | 27.04 B   | 53.13 B        | 17.15 B | 57.21 B   |
| # of Analysts                                     | 8            | 4          | 13        | 5              | 8       | 13        |
| Dividend Yield                                    | 0.63%        | 0.00%      | 1.42%     | 0.32%          | 0.84%   | 0.00%     |
| Value Score                                       | D            | -          | -         | D              | B       | C         |
| Cash/Price                                        | 0.06         | 0.07       | 0.06      | 0.06           | 0.01    | 0.07      |
| EV/EBITDA                                         | 38.98        | 23.87      | 14.85     | 41.33          | 13.47   | 24.43     |
| PEG F1                                            | 2.78         | 2.82       | 2.52      | 3.94           | NA      | 1.33      |
| P/B                                               | 18.76        | 7.36       | 3.88      | 8.73           | 3.19    | 6.75      |
| P/CF                                              | 50.34        | 29.02      | 14.57     | 39.19          | 9.49    | 21.05     |
| P/E F1                                            | 44.74        | 37.15      | 20.63     | 40.18          | 15.30   | 19.34     |
| P/S TTM                                           | 12.55        | 5.01       | 2.95      | 10.75          | 3.67    | 4.95      |
| Earnings Yield                                    | 2.23%        | 2.44%      | 4.74%     | 2.49%          | 6.54%   | 5.17%     |
| Debt/Equity                                       | 0.39         | 0.14       | 0.70      | 0.88           | 1.26    | 0.59      |
| Cash Flow (\$/share)                              | 7.45         | 1.18       | 6.88      | 5.28           | 6.97    | 6.68      |
| Growth Score                                      | A            | -          | -         | D              | C       | B         |
| Historical EPS Growth (3-5 Years)                 | 21.27%       | 10.79%     | 9.69%     | 10.22%         | 33.17%  | 12.58%    |
| Projected EPS Growth (F1/F0)                      | 6.27%        | 13.42%     | 12.61%    | 14.00%         | 3.67%   | 12.93%    |
| Current Cash Flow Growth                          | 14.79%       | 0.52%      | 4.97%     | 59.53%         | 50.39%  | 0.87%     |
| Historical Cash Flow Growth (3-5 Years)           | 12.23%       | 8.51%      | 8.07%     | 12.28%         | 42.09%  | 13.69%    |
| Current Ratio                                     | 3.09         | 1.59       | 1.38      | 2.01           | 1.05    | 0.90      |
| Debt/Capital                                      | 27.92%       | 21.25%     | 41.88%    | 46.81%         | 55.69%  | 37.03%    |
| Net Margin                                        | 25.10%       | 7.25%      | 10.44%    | 10.63%         | 12.20%  | 13.75%    |
| Return on Equity                                  | 40.29%       | 10.95%     | 15.37%    | 15.21%         | 20.42%  | 27.10%    |
| Sales/Assets                                      | 0.89         | 0.59       | 0.50      | 0.32           | 0.29    | 0.42      |
| Projected Sales Growth (F1/F0)                    | 16.30%       | 5.75%      | 6.13%     | 10.66%         | 2.85%   | 14.39%    |
| Momentum Score                                    | C            | -          | -         | F              | B       | C         |
| Daily Price Change                                | 0.10%        | 0.00%      | -0.63%    | 1.02%          | -1.28%  | 3.16%     |
| 1-Week Price Change                               | 1.04%        | 1.84%      | -0.02%    | 2.68%          | 1.69%   | -0.23%    |
| 4-Week Price Change                               | -0.93%       | 3.62%      | 3.06%     | 1.05%          | -7.98%  | 0.83%     |
| 12-Week Price Change                              | 15.42%       | 26.10%     | 13.23%    | 20.23%         | 6.61%   | 6.56%     |
| 52-Week Price Change                              | 30.07%       | 25.15%     | 8.52%     | 17.66%         | 3.39%   | -5.53%    |
| 20-Day Average Volume (Shares)                    | 1,190,824    | 117,965    | 1,805,457 | 13,017         | 880,759 | 1,708,162 |
| EPS F1 Estimate 1-Week Change                     | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 4-Week Change                     | -0.06%       | 0.00%      | 0.15%     | 0.00%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 12-Week Change                    | -17.44%      | 0.74%      | 2.10%     | 0.00%          | 0.68%   | 7.35%     |
| EPS Q1 Estimate Monthly Change                    | -2.33%       | 0.00%      | 0.00%     | 0.00%          | 0.19%   | 0.00%     |

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.

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | D |
| Growth Score   | A |
| Momentum Score | C |
| VGM Score      | C |

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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