

## Iron Mountain Inc. (IRM)

**\$30.16** (As of 09/07/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

## Summary

Iron Mountain recently inked an expansion lease for 5 megawatts of capacity with an U.S. Federal government civilian agency for offering colocation data-center solutions. Notably, organic growth in recurring revenues from its storage business is likely to drive its performance over the long term. Moreover, amid strong demand for interconnection and colocation space, focus on the data center business will diversify its revenue mix. The company expanded its transformation program, Project Summit, and expects higher adjusted EBITDA benefit. Its shares have also outperformed the industry in the past three months. However, continued weakness in recycled paper prices and a slowdown in its service business will likely affect service activity. Given its international presence, fluctuations in currency exchange rate is an added concern.

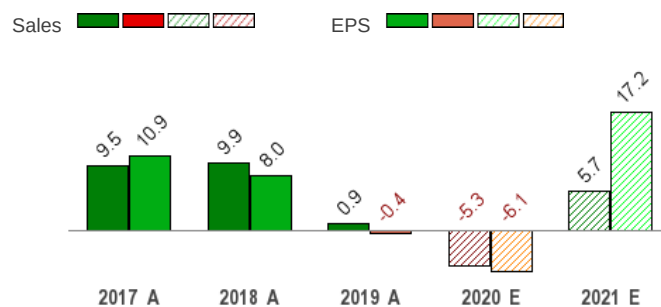
## Price, Consensus & Surprise



## Data Overview

|                                |                               |
|--------------------------------|-------------------------------|
| 52-Week High-Low               | \$34.49 - \$21.00             |
| 20-Day Average Volume (Shares) | 2,184,644                     |
| Market Cap                     | \$8.7 B                       |
| Year-To-Date Price Change      | -5.4%                         |
| Beta                           | 0.69                          |
| Dividend / Dividend Yield      | \$2.47 / 8.2%                 |
| Industry                       | REIT and Equity Trust - Other |
| Zacks Industry Rank            | Bottom 10% (225 out of 251)   |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 26.2%      |
| Last Sales Surprise           | 7.0%       |
| EPS F1 Estimate 4-Week Change | 2.6%       |
| Expected Report Date          | 10/29/2020 |
| Earnings ESP                  | 5.7%       |
| P/E TTM                       | 12.6       |
| P/E F1                        | 14.0       |
| PEG F1                        | 3.0        |
| P/S TTM                       | 2.1        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,050 E | 1,059 E | 1,070 E | 1,087 E | 4,266 E |
| 2020 | 1,069 A | 982 A   | 985 E   | 1,027 E | 4,035 E |
| 2019 | 1,054 A | 1,067 A | 1,062 A | 1,080 A | 4,263 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.58 E | \$0.60 E | \$0.63 E | \$0.66 E | \$2.52 E |
| 2020 | \$0.59 A | \$0.53 A | \$0.53 E | \$0.56 E | \$2.15 E |
| 2019 | \$0.48 A | \$0.54 A | \$0.62 A | \$0.65 A | \$2.29 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 09/07/2020. The reports text is as of 09/08/2020.

## Overview

Boston, MA-based Iron Mountain Inc. provides records & information management services and data center space & solutions in more than 50 countries. The company started operating as a real estate investment trust (REIT) from the taxable year that commenced on Jan 1, 2014. This S&P 500 member serves more than 225,000 customers from various industries, through its 1,480 facilities spanning more than 90 million square feet.

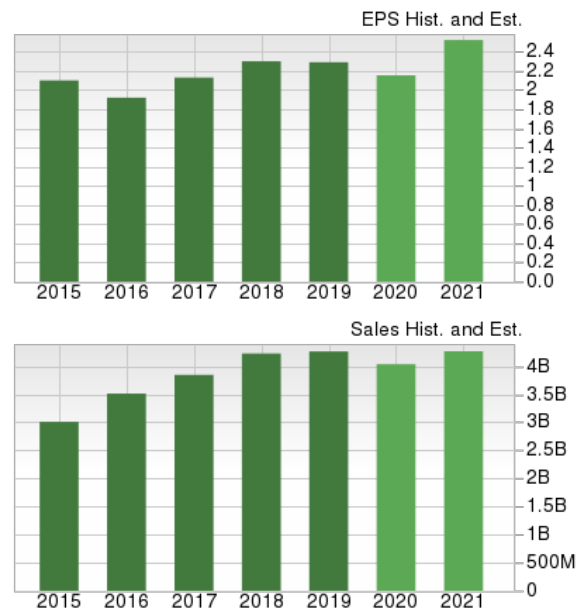
The company primarily generates revenues from storage rental and services. Storage rental revenues are generated through periodic rental charges for data storage. Service revenues comprise charges for related core service activities and a wide array of complementary products and services.

In October 2019, Iron Mountain announced a transformation program — Project Summit — to focus on simplifying its global structure, deleveraging, streamlining managerial structure for the future and enhancing customer experience.

Moreover, as a result of the managerial structure changes associated with Project Summit, the company has updated its reportable operating segments, which now comprise (i) Global Records and Information Management (RIM) Business (consists of the former North American Records and Information Management Business (excluding the company's technology escrow services business), North American Data Management Business, Western European Business and Other International Business); (ii) Global Data Center Business; and (iii) Corporate and Other Business (includes Adjacent Businesses and technology escrow services business).

In 2017, the company launched Iron Mountain Iron Cloud, its enterprise-class cloud storage platform and services that offers data protection, preservation, restoration and recovery services.

*Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Iron Mountain enjoys a steady stream of recurring revenues from its core storage and record management businesses. In fact, the company derives the majority of its revenues from fixed periodic (usually earned on a monthly basis) storage rental fees charged to customers based on the volume of their records stored. The company has enjoyed a consistent box retention rate of 98%, with more than 50% of its boxes staying in the facilities for 15 years on average. This durable business also drives significant cross-selling synergies across different segments and delivers robust cash-flow growth. Strong organic growth and the company's initiatives to expand its core storage business will likely lead to sustained top-line growth over the long term. In fact, storage rentals account for 69% of the company's total revenues. Moreover, Iron Mountain's resilient storage business is largely insulated from the impacts of the coronavirus pandemic since revenues from the segment are generated from boxes that are already in storage.
- ▲ Iron Mountain is supplementing its storage segment's performance with expansion in its faster-growing businesses, most notably being the data center segment. Particularly, the company expanded its global data center portfolio via Fortrust, I/O, Credit Suisse and EvoSwitch acquisitions. In fact, data-center wins and a robust leasing pipeline indicate Iron Mountain's solid data-center platform which offers a long growth runway. Further, strong demand for connectivity, interconnection and colocation space is driving leasing. In fact, in the first half of 2020, the company signed 39 megawatts of new and expansion leases. With additional 10 megawatts of lease execution expected in the second half of 2020, management's full-year leasing outlook is 45-50 megawatts. Additionally, it aims for the data center business to account for 10% of total adjusted EBITDA by the end of 2020. As such, the efforts will diversify the company's revenue mix and improve adjusted EBITDA margins.
- ▲ Iron Mountain's diversified tenant base is a positive. The company serves more than 225,000 clients across different industries and geographical locations. Most importantly, no single customer accounts for more than 1% of its revenues, which reflects a well-diversified revenue generation base. Further, the company is on track in shifting its mix to faster-growing businesses, which increased to 24% of the company's sales, up from the 9% witnessed six years ago. Moreover, in October 2019, Iron Mountain announced a transformation program — Project Summit — to focus on simplifying its global structure, deleveraging, streamlining managerial structure for the future and enhancing customer experience. Such efforts are likely to help grow the company's profitability over the long term. In fact, the company realized \$65 million of adjusted EBITDA benefits in the first half of 2020 from this transformation initiative. The company expects Project Summit to improve adjusted EBITDA by approximately \$150 million in 2020.
- ▲ Iron Mountain has an aggressive acquisition strategy to supplement organic growth in storage revenues. The company has not only gained new customers from these acquisitions but has also been able to expand operations in international markets, specifically, emerging markets. Notably, by scaling up its emerging market platform, the company can accelerate the EBITDA growth rate. In first-quarter 2020, the company acquired a storage and records management company in the UAE for around \$29,100. During 2019, it completed the buyout of 10 storage and records management companies and an art storage company, thereby enhancing its operations in the United States, Colombia, Germany, Hong Kong, Latvia, Slovakia, Switzerland, Thailand and the United Kingdom and expanding operations in Bulgaria. Moreover, the company expects to generate capital recycling proceeds of approximately \$100 million in 2020.
- ▲ Also, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Iron Mountain remains committed to that. The company has a record of nine years of consecutive dividend increase. In fact, concurrent with its third-quarter 2019 earnings, the company announced a 1.2% sequential hike in quarterly cash dividend to 61.85 cents. Given the company's near-term liquidity, such shareholder friendly moves are likely to continue in the upcoming period and will boost investor confidence in the stock.
- ▲ Iron Mountain exited the second quarter with \$907.2 million of cash and cash equivalents, up from \$193.5 million recorded at 2019 end. Moreover, company had total liquidity of \$1.2 billion, pro forma for redemption of \$1 billion of 2024 notes on Jul 2. Furthermore, with no significant maturities in 2020 and extended maturity profile, it has ample financial flexibility for near-term operations. The company is also making efforts to reduce its leverage. In fact, net lease adjusted leverage as of Jun 30, 2020 was 5.4X, within the long-term leverage target range of 4.5X–5.5X.
- ▲ Shares of Iron Mountain have inched up 0.1% over the past three months against the industry's decline of 3.6%. Moreover, the trend in estimate revisions for current-year FFO per share indicates a favorable outlook for the company as it has been revised 2.4% upward over the past month. Therefore, given the strong fundamentals and upward estimate revisions, the stock has decent upside potential in the near term.

Strong cash flows in storage and records management business, and focus on data center business are positives for Iron Mountain. Also, an aggressive acquisition strategy supplements organic growth.

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## Reasons To Sell:

- ▼ As archiving of original hard-copy documents loses its relevance, paper needs are shrinking at the enterprise level. This is resulting in declining physical storage volume and low demand for handling of records. This is reducing service activity levels. In fact, the company witnessed a sequential decline of 1.8 million cubic feet in global organic storage volume during the second quarter. Management is of the view that moderation in economic activity instead of remote working is likely to have impacted physical storage business volumes. Net organic storage volume is expected to decline by 1-1.5% in 2020, per management. Also, continued weakness in recycled paper prices is impacting organic service revenue growth. In addition to headwinds from paper prices, project Summit one-time costs remain challenging for the company's profitability.
- ▼ The pandemic has led to numerous shutdowns of businesses and an increase in remote-working policies across companies, resulting in a slowdown in Iron Mountain's service business. In fact, the company's global service activities declined 32% year over year in second-quarter 2020 and 24% in July. Although the reopening of global economies and higher utilization of the company's core service offerings improved in June, it is significantly below the year-ago levels. Further, Iron Mountain saw a year-over-year decline of 45% in new boxes inbounded and a 43% decline for retrievals and refills. These declines are likely to continue in the third quarter as well, as indicated by a year-over-year decline of 38% for incoming boxes in the North America RIM business in July.
- ▼ The records and information management services industry is highly fragmented with numerous competitors in North America and around the world. Although Iron Mountain offers compelling products and has a strong market position, the company faces significant competition. This along with declining RIM volumes in its more mature markets is likely to result in aggressive pricing and will keep margins under pressure, going forward.
- ▼ In addition, given Iron Mountain's international footprint, the company often faces unfavorable foreign-currency movements, which affects top-line growth. In fact, foreign currency exchange rate headwinds decreased storage rental revenue growth rate and service revenue growth rate for the six months ended Jun 30, 2020 by 2.2% and 1.9%, respectively. Also, foreign currency exchange rate headwinds are expected to impact revenues by \$75 million in 2020. Moreover, expansion of the company's international businesses has adversely impacted cost of sales components, and selling, general and administrative expenses. This is because its international operations are more labor intensive relative to revenues as compared with the company's North America operations. This results in labor costs to be a higher percentage of revenues from international operations.

The storage and information management services industry remains a highly-fragmented industry with numerous competitors. Slowdown in service business and unfavorable paper prices are concerns.

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## Last Earnings Report

### Iron Mountain Surpasses Q2 FFO & Revenue Estimates

Iron Mountain reported second-quarter 2020 normalized FFO per share of 53 cents, beating the Zacks Consensus Estimate of 42 cents. However, the reported figure was 1.9% lower than the year-ago quarter's 54 cents.

Revenues of \$982.2 million declined 7.9% year over year, outpacing the Zacks Consensus Estimate of \$918.3 million.

Results reflect strength in the company's core storage business. However, amid the coronavirus outbreak-led concerns, the service segment's performance was disappointing.

Adjusted FFO increased 19% year over year to \$249.5 million.

### Quarter Details

Storage rental revenues were \$677 million in the June-end quarter, highlighting a 3.7% year-over-year increase on a constant-currency basis. The company recorded 2.3% organic growth year over year.

Service revenues amounted to \$305 million in the reported quarter, indicating a year-over-year fall of 21.3% on a constant-currency basis. Further, organic service revenues declined 23.1% year over year.

Adjusted EBITDA margin expanded 200 basis points to 34.9%.

### Liquidity

The company exited the second quarter with \$907.2 million of cash and cash equivalents, up from \$193.5 million recorded at 2019 end.

As of the second-quarter end, the company had total liquidity of \$1.2 billion, pro forma for redemption of \$1 billion of 2024 notes on Jul 2.

### Project Summit Update

Iron Mountain's transformation program — Project Summit — focuses on simplifying its global structure, streamlining managerial structure for the future and enhancing customer experience.

Project Summit is now anticipated to deliver annual adjusted EBITDA benefits of \$375 million, exiting 2021. The total cost to implement the program is estimated to be approximately \$450 million.

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| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Aug 06, 2020 |
| Sales Surprise   | 6.97%        |
| EPS Surprise     | 26.19%       |
| Quarterly EPS    | 0.53         |
| Annual EPS (TTM) | 2.39         |

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## Recent News

### Iron Mountain Inks Expansion Lease With U.S. Federal Agency – Sep 1, 2020

Iron Mountain informed that one of its tenants — an U.S. Federal government civilian agency — is expanding its existing footprint to the company's data centers in Manassas, VA and Denver, CO. In fact, the agency will lease additional 5 megawatts of power capacity at Iron Mountain's colocation data centers to facilitate its IT transformation initiatives.

Specifically, the agency intends to migrate from its current proprietary — on-premise data center — to a 4-megawatt space at Iron Mountain's new Northern Virginia data center, VA-2. Moreover, via expansion of its disaster recovery space, the agency will shift from the current 1.5-megawatt space leased at Iron Mountain's Boyers, PA-based data center to a 2.5-megawatt space at the company's Denver DEN-1 facility. The lease is anticipated to begin in second-quarter 2021.

Notably, Iron Mountain's data center campus in Virginia spans 83 acres. The campus' location in the center of the world's largest and fastest-growing data center market has likely attracted the tenant to lease space at the facility. The VA-1 data center was unveiled in September 2017. The 12.4-megawatt facility is fully leased and offers carrier-neutral connectivity and convenient access to carriers, clouds, as well as IT service providers. VA-2 was opened in early July with 4 megawatts of initial capacity and has 24 megawatts of capacity at full build-out.

Moreover, DEN-1 is strategically located in the core of downtown Denver, which is one of the lowest disaster-risk areas in the United States. It offers more than 11 megawatts of IT capacity and carrier-neutral connectivity, and has access to 12 native carriers as well as numerous public cloud on-ramps.

### Iron Mountain to Raise \$1.1B With Private Placement of Notes – Aug 10, 2020

Iron Mountain announced a senior note offering of \$1.1 billion through a private placement. This denotes an upsize from the company's previous offering of \$850 million. The 4.500% notes, due in 2031, will be guaranteed by the company's subsidiaries.

The latest offering is likely to further boost the company's flexibility. Iron Mountain plans to utilize the net proceeds from the offering to redeem all the C\$250 million of aggregate principal amount of 5 3/8% senior notes due in 2023 issued by Iron Mountain Canada Operations. The company also intends to use the proceeds to redeem all \$250 million of 5 3/8% senior notes due in 2026 issued by Iron Mountain US Holdings.

Additionally, Iron Mountain is expected to use the net proceeds to redeem the €300 million 3% senior notes due in 2025 and reduce the outstanding balances under its revolving credit facility.

### Iron Mountain Partners With Keevo to Safeguard Crypto Currency Users – Jul 1, 2020

Iron Mountain formed a partnership with Keevo, a next-gen crypto hardware wallet, in efforts to offer advanced backup and beneficiary services for users of Keevo's next-generation crypto wallet — the Keevo Model 1.

Through the partnership, Keevo's new Secure Beneficiary and Storage service subscribers will be able to choose an heir as well as encrypt and store their private data on individual Carbon Keys. The Carbon Keys will be stored and secured in an Iron Mountain storage facility. This will facilitate the safe transfer of private keys for digital assets to a user's heirs without revealing any information of the user.

### Dividend Update

On Aug 5, Iron Mountain announced a third-quarter common stock cash dividend of 61.85 cents per share. The dividend will be paid out on Oct 2 to shareholders of record at the close of business on Sep 15, 2020.

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## Valuation

Iron Mountain's shares have been down 9.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance

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sector declined 8.1% and 8.6%, over the past year, respectively.

The S&P 500 Index is up 15.7% over the past year.

The stock is currently trading at 12.53X forward 12-month FFO, which compares with the 19.26X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.84X for the S&P 500 Index.

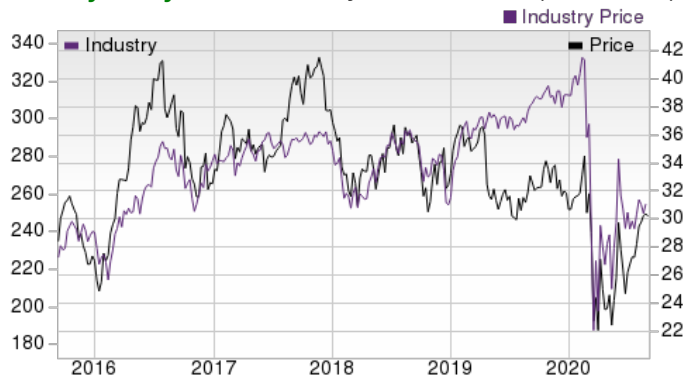
Over the past five years, the stock has traded as high as 21.65X and as low as 8.83X, with a 5-year median of 14.82X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$32 price target reflects 13.29X FFO.

The table below shows summary valuation data for IRM.

| Valuation Multiples - IRM |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 12.53 | 19.26        | 16.65  | 22.84   |
|                           | 5-Year High   | 21.65 | 19.33        | 16.71  | 23.44   |
|                           | 5-Year Low    | 8.83  | 14.32        | 11.60  | 15.26   |
|                           | 5-Year Median | 14.82 | 16.14        | 14.27  | 17.63   |
| P/S F12M                  | Current       | 2.07  | 8.36         | 6.44   | 4.19    |
|                           | 5-Year High   | 2.93  | 8.38         | 6.67   | 4.29    |
|                           | 5-Year Low    | 1.41  | 5.97         | 4.97   | 3.11    |
|                           | 5-Year Median | 2.27  | 7.08         | 6.07   | 3.66    |
| P/B TTM                   | Current       | 8.48  | 2.46         | 2.56   | 5.90    |
|                           | 5-Year High   | 16.09 | 3.03         | 2.91   | 6.17    |
|                           | 5-Year Low    | 3.81  | 1.81         | 1.72   | 3.75    |
|                           | 5-Year Median | 5.35  | 2.51         | 2.54   | 4.83    |

As of 09/04/2020

## Industry Analysis Zacks Industry Rank: Bottom 10% (225 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                              | Rec     | Rank |
|-----------------------------------------------|---------|------|
| Gaming and Leisure Properties, Inc. (GLPI)    | Neutral | 3    |
| Gladstone Commercial Corporation (GOOD)       | Neutral | 3    |
| Innovative Industrial Properties, Inc. (IIPR) | Neutral | 3    |
| Lamar Advertising Company (LAMR)              | Neutral | 3    |
| Gladstone Land Corporation (LAND)             | Neutral | 3    |
| OUTFRONT Media Inc. (OUT)                     | Neutral | 4    |
| Safeguard Inc. (SAFE)                         | Neutral | 4    |
| VICI Properties Inc. (VICI)                   | Neutral | 3    |

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

| Industry Comparison Industry: Reit And Equity Trust - Other |           |            |           | Industry Peers |         |           |
|-------------------------------------------------------------|-----------|------------|-----------|----------------|---------|-----------|
|                                                             | IRM       | X Industry | S&P 500   | GLPI           | LAMR    | VICI      |
| Zacks Recommendation (Long Term)                            | Neutral   | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                                     | 3         | -          | -         | 3              | 3       | 3         |
| VGM Score                                                   | B         | -          | -         | D              | C       | D         |
| Market Cap                                                  | 8.69 B    | 2.02 B     | 23.38 B   | 8.20 B         | 6.78 B  | 12.21 B   |
| # of Analysts                                               | 6         | 4          | 14        | 2              | 1       | 5         |
| Dividend Yield                                              | 8.20%     | 3.75%      | 1.62%     | 6.37%          | 2.98%   | 5.20%     |
| Value Score                                                 | B         | -          | -         | C              | C       | D         |
| Cash/Price                                                  | 0.10      | 0.06       | 0.07      | 0.01           | 0.02    | 0.40      |
| EV/EBITDA                                                   | 11.62     | 14.33      | 13.13     | 14.55          | 12.59   | 16.77     |
| PEG F1                                                      | 3.00      | 3.90       | 2.96      | 2.62           | NA      | 1.52      |
| P/B                                                         | 8.48      | 1.36       | 3.22      | 3.90           | 6.03    | 1.35      |
| P/CF                                                        | 9.19      | 11.11      | 12.65     | 12.22          | 10.77   | 18.10     |
| P/E F1                                                      | 13.91     | 15.54      | 21.59     | 11.07          | 13.95   | 14.09     |
| P/S TTM                                                     | 2.07      | 5.02       | 2.44      | 7.31           | 4.05    | 12.55     |
| Earnings Yield                                              | 7.13%     | 5.66%      | 4.42%     | 9.03%          | 7.17%   | 7.08%     |
| Debt/Equity                                                 | 8.54      | 0.90       | 0.70      | 2.83           | 2.80    | 0.74      |
| Cash Flow (\$/share)                                        | 3.28      | 2.05       | 6.93      | 3.08           | 6.24    | 1.26      |
| Growth Score                                                | B         | -          | -         | F              | C       | D         |
| Historical EPS Growth (3-5 Years)                           | 3.11%     | 0.73%      | 10.41%    | 5.52%          | 4.74%   | NA        |
| Projected EPS Growth (F1/F0)                                | -5.97%    | -2.49%     | -4.75%    | -1.16%         | -16.90% | 9.73%     |
| Current Cash Flow Growth                                    | -8.61%    | 3.36%      | 5.22%     | 18.20%         | 17.20%  | 9.29%     |
| Historical Cash Flow Growth (3-5 Years)                     | 8.50%     | 12.74%     | 8.49%     | 17.10%         | 8.39%   | NA        |
| Current Ratio                                               | 0.80      | 1.62       | 1.35      | 4.81           | 1.13    | 99.57     |
| Debt/Capital                                                | 89.59%    | 47.87%     | 42.95%    | 73.89%         | 73.69%  | 42.69%    |
| Net Margin                                                  | 4.82%     | 10.49%     | 10.25%    | 36.90%         | 16.38%  | 46.09%    |
| Return on Equity                                            | 21.19%    | 3.32%      | 14.59%    | 19.97%         | 23.81%  | 4.80%     |
| Sales/Assets                                                | 0.30      | 0.13       | 0.50      | 0.13           | 0.28    | 0.07      |
| Projected Sales Growth (F1/F0)                              | -5.33%    | 0.00%      | -1.42%    | -3.81%         | -10.35% | 28.99%    |
| Momentum Score                                              | C         | -          | -         | A              | B       | F         |
| Daily Price Change                                          | -0.43%    | -0.21%     | -0.30%    | 0.53%          | 1.13%   | -0.17%    |
| 1-Week Price Change                                         | 0.43%     | 1.60%      | 2.59%     | 1.38%          | 7.49%   | 2.04%     |
| 4-Week Price Change                                         | 3.68%     | 0.04%      | 2.00%     | -1.31%         | 2.17%   | 0.79%     |
| 12-Week Price Change                                        | 9.24%     | 2.30%      | 10.57%    | 4.50%          | 1.01%   | 11.55%    |
| 52-Week Price Change                                        | -8.85%    | -22.06%    | 1.69%     | -2.71%         | -11.91% | 3.11%     |
| 20-Day Average Volume (Shares)                              | 2,184,644 | 563,811    | 1,827,096 | 869,197        | 465,290 | 3,495,859 |
| EPS F1 Estimate 1-Week Change                               | 0.00%     | 0.00%      | 0.00%     | 0.81%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 4-Week Change                               | 2.62%     | 0.00%      | 0.00%     | 0.81%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 12-Week Change                              | 1.86%     | 0.00%      | 3.89%     | 3.97%          | 0.00%   | -3.04%    |
| EPS Q1 Estimate Monthly Change                              | 5.58%     | 0.00%      | 0.00%     | 0.60%          | 0.00%   | 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    | <b>B</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>B</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.