

Jacobs Engineering (J)

\$91.96 (As of 09/04/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Shares of Jacobs have outperformed the industry year to date. The price performance is backed by solid earnings surprise history. Its earnings have topped consensus mark in 10 of the trailing 12 quarters. The trend is expected to continue in the near term, courtesy of its solid performance for the first nine months of fiscal 2020 despite disruptions caused by the COVID-19 outbreak. It has been benefiting from healthy segmental businesses, the transformed business model, acquisitions, cost savings and prudent strategy execution. It also remains well positioned to deliver positive free cash flow for the remainder of fiscal 2020. Quarter-end backlog (\$23.7 billion) reflects solid demand for its consulting services. However, it expects coronavirus-related disruptions to continue in the fiscal fourth quarter and early fiscal 2021.

Price, Consensus & Surprise

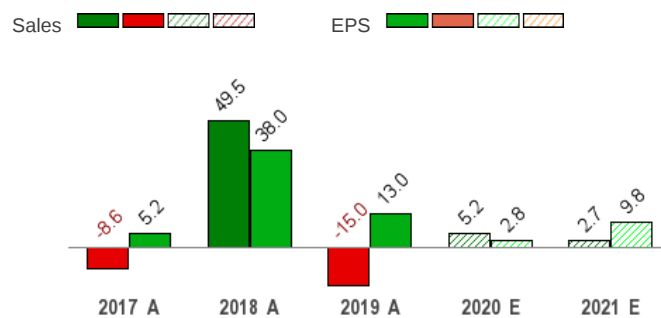


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$104.00 - \$59.29
20-Day Average Volume (Shares)	655,886
Market Cap	\$12.0 B
Year-To-Date Price Change	2.4%
Beta	0.94
Dividend / Dividend Yield	\$0.76 / 0.8%
Industry	Engineering - R and D Services
Zacks Industry Rank	Top 47% (118 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.3%
Last Sales Surprise	3.7%
EPS F1 Estimate 4-Week Change	-0.4%
Expected Report Date	NA
Earnings ESP	-1.7%
P/E TTM	17.3
P/E F1	17.7
PEG F1	1.6
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,362 E	3,442 E	3,460 E	3,495 E	13,765 E
2020	3,360 A	3,427 A	3,260 A	3,355 E	13,402 E
2019	3,084 A	3,092 A	3,170 A	3,393 A	12,738 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.28 E	\$1.38 E	\$1.52 E	\$1.55 E	\$5.70 E
2020	\$1.20 A	\$1.39 A	\$1.26 A	\$1.29 E	\$5.19 E
2019	\$0.78 A	\$1.19 A	\$1.40 A	\$1.48 A	\$5.05 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 09/04/2020. The reports text is as of 09/07/2020.

Overview

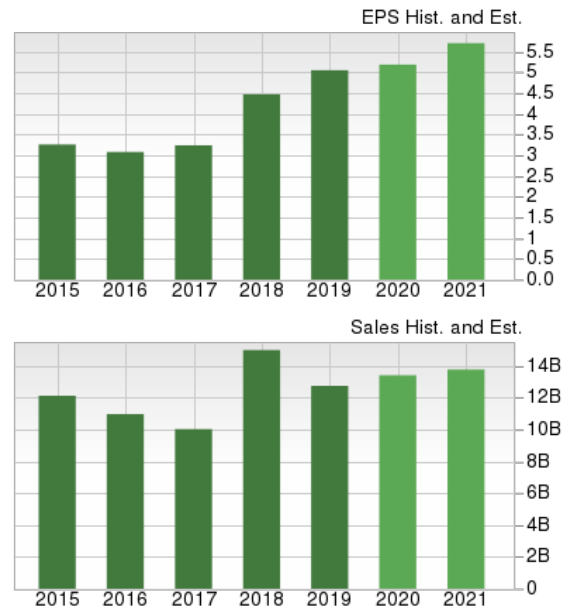
Dallas, TX-based **Jacobs Engineering Group Inc.** is one of the leading providers of professional, technical and construction services to industrial, commercial and governmental clients. During fourth-quarter fiscal 2019 earnings call, the company reported that the stock will trade in NYSE under the ticker symbol "J" instead of JEC, effective Dec 10, 2019.

Effective fourth-quarter fiscal 2019, the names of Jacobs' line of businesses have been changed to better reflect outcome-focused solutions for customers. The Aerospace, Technology and Nuclear segment will now be known as **Critical Mission Solutions**, and Buildings, Infrastructure and Advanced Facilities segment's name is changed to **People & Places Solutions**. Notably, these name changes have had no impact on reported financials, line of business leadership or customer relationships.

Critical Mission Solutions or CMS (representing 35.2% of first-quarter fiscal 2020 total revenues) serves global automotive, aerospace, telecommunications, defense, and nuclear clients, as well as the intelligence community of the United States. In fiscal 2019, 77% of CMS's revenues were earned from serving the DoD, Intelligence Community and civil governmental entities. Notably, in fiscal 2019, 12% of CMS's revenues were generated from various U.S. commercial sectors, including the telecommunications market, which anticipates a large cellular infrastructure build-out from 4G to 5G technology.

People & Places Solutions or P&PS (64.8%) serves clients of broad sectors like water, transportation, building and semiconductors.

On Jun 12, 2019, Jacobs acquired KeyW. The transaction positions Jacobs as a leader in high-value Government Services. Meanwhile, on Apr 26, Jacobs completed the sale of the Energy, Chemicals and Resources ("ECR") business unit to Australia's WorleyParsons Ltd., as it intends to focus more on highest-margin growth businesses.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Stellar Performance:** Jacobs' shares have outperformed its industry in the year-to-date period. The price performance is backed by an impressive earnings surprise history. The company surpassed earnings estimates in 10 of the trailing 12 quarters. The trend is expected to continue in the near term, courtesy of its solid performance for the first nine months of fiscal 2020 despite disruptions caused by the COVID-19 outbreak.

Jacobs registered stellar growth in the first nine months of fiscal 2020. Adjusted earnings from continuing operations came in at \$3.85 per share, reflecting an increase of 7.5% year over year. Revenues were \$10 billion, increasing 7.5% from a year ago. Adjusted operating margin increased 23 basis points (bps) year over year to 8.76%. Although coronavirus-related disruptions are likely to hurt Jacobs in the fiscal fourth quarter and create challenges in early fiscal 2021, it raised its adjusted EBITDA and EPS guidance for fiscal 2020, based on fiscal third-quarter performance and the initial view for the fiscal fourth quarter.

Notably, fiscal 2019 was a transformational year for Jacobs. It completed the divestiture of the Energy, Chemicals and Resources or ECR business in April, acquisition of KeyW in June, and announced the buyout of Wood's nuclear business in August. These moves were in sync with its strategic focus on transitioning from engineering and construction to a global technology-forward solutions company. In first-quarter fiscal 2020, the company changed its ticker symbol to J (formerly JEC), signifying its focus on delivering integrated solutions. Notably, the company intends to change its legal name to Jacobs Solutions.

- ▲ **Strong Backlog:** Efficient project execution has been one of the main characteristics that is driving Jacobs' performance since the past few quarters. The company's ongoing contract wins are a testimony to the fact. Backlog at fiscal third quarter-end was \$23.7 billion, reflecting an increase of 5.4% year over year (up 4% on a pro-forma basis). This reflects persistent solid demand for Jacobs' consulting services. CMS backlog grew 7.2% year over year (up 3% on a pro forma basis) to \$9.1 billion for the fiscal third quarter, which provided a strong visibility into the base business. The company's overall 18-month qualified new business pipeline of \$30 billion remains robust. This segment is benefiting from well-funded government programs and cyber, U.S. Department of Defense or DoD, mission-IT, space, nuclear, as well as 5G-related projects.

PPS backlog was up 4.3% year over year for the quarter to \$14.6 billion. Overall, the backlog growth can be attributed to the company's capitalizing on CH2M and KeyW revenue synergies.

Overall, the company has a robust pipeline of opportunities across all businesses, as it has started to realize synergies from CH2M and KeyW buyouts.

- ▲ **Accretive Acquisitions & Divestiture:** Jacobs is reinforcing the business on the back of meaningful business acquisitions and divestitures. In sync with this, on Mar 6, 2020, a unit of Jacobs completed the acquisition of a nuclear consulting, remediation and program management business of John Wood Group, a U.K.-based energy services company.

In fiscal 2019, Jacobs acquired KeyW, thereby enhancing the higher-margin CMS business through intelligence solutions capabilities in high-security clearance areas. KeyW, which provides engineering/technology solutions in intelligence, cyber and related national security concerned areas for the U.S. government, will compliment Jacobs' CMS segment. Meanwhile, the company's acquisition of CH2M HILL Companies Ltd. (CH2M) in December 2017 strengthened global water business. The CH2M buyout also fortifies businesses across the industrial sector.

Acquisitions of KeyW and John Wood Group's nuclear business will further position Jacobs as a leader in high-value government services and technology-enabled solutions, and enhance its portfolio by adding intellectual property-driven technology with unique proprietary C5ISR (command, control, communications, computer, combat systems, intelligence, surveillance and reconnaissance) rapid solutions. These additions also amplified Jacobs' position as a Tier-1 global nuclear services provider.

Meanwhile, Jacobs exited ECR business in April 2019, which tended to be more cyclical and less profitable. The company's focus on infrastructure, aerospace, cybersecurity and technical building projects bodes well for growth and profitability.

- ▲ **Strong Long-Term View:** Despite short-term challenges associated with COVID-19, Jacobs' long-term outlook for the business remains intact and it expects to generate strong free cash flow for the remainder of 2020. Management had earlier outlined margin targets for the next three years (through 2021), with Jacobs aiming a 125-175 bps expansion in adjusted operating margins. The guidance anticipates 100-150 bps increase in CMS margins and 110-140 bps growth in PPS margin, supported by the elimination of ECR. This will lead to a 125-175 bps rise in overall margins. The margin expansion is expected to be driven by a combination of higher-margin backlog, and focus on generating efficiencies through digital and technological solutions. The company is projecting 3-5% net organic revenue growth, with PPS leading the way with 4-6% top-line CAGR and CMS with 2-3% CAGR. The top-line growth is expected to be driven by recurring revenues that roughly occupy two-thirds of Jacobs' total revenues, in turn reducing overall risks of market volatility. For the CMS business, Jacobs continues to expect more than 10% operating profit CAGR through 2021.

Elevated construction spending in the United States and Trump's impetus to boost infrastructure spending have been triggering demand for Jacob's state-of-the-art construction, and engineering services since the past few quarters.

Jacobs is benefiting major government customers across the Department of Defense, Department of Energy, intelligence community and NASA. Jacobs derived 27% of the fiscal 2019 total revenues, directly or indirectly, from agencies of the U.S. federal government. Meanwhile, within its commercial markets, the 5G wireless build-out continues to provide a robust opportunity. Jacobs' telecom business grew by approximately 50% in fiscal year 2019, benefiting from the shift to 5G small cell sites as cities deploy intelligent infrastructure. The company's telecom team provides differentiated consulting services and infrastructure services to support this multi-decade opportunity in close

Improved segmental performances, solid backlog, acquisitions and efforts to focus on high-value business will likely improve Jacobs' near-term results

collaboration with its PPS line of business. Importantly, the company's CMS business is executing well and is positioned to deliver double digit increase in profits on a year-over-year basis in fiscal 2020. The company's focus on long-term mission-critical enterprise contracts bodes well. It has a robust pipeline of more than \$30 billion through 2020. These positives are likely to continue to drive Jacobs' bottom-line in the upcoming quarters.

▲ **Enough Liquidity to Tide Over COVID-19 Pandemic:** At fiscal third quarter-end, Jacobs had cash and cash equivalents of \$1 billion (despite repaying approximately \$950 million on the revolving credit facility). Although cash declined from \$1.66 billion in the fiscal second quarter, it was significantly up from \$631.1 million at fiscal 2019-end, with no short-term debt. The company had \$1.63 billion of available borrowing capacity under the \$2.25-billion revolving credit agreement as of Jun 26, 2020. Also, the company's long-term debt decreased to \$2.16 billion at fiscal third quarter-end from \$3.1 billion in the fiscal second quarter. Furthermore, no long-term debt will mature prior to March 2024. Moreover, the company's times interest earned ratio stands at 8.5, higher than the fiscal second quarter's 4.8. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on the current income.

Jacobs generated \$332 million of free cash flow in the quarter and now expects the same to touch \$400 million in fiscal 2020.

Reasons To Sell:

▼ **Coronavirus-Related Disruptions to Weigh on Near-Term Results:** Although Jacobs has been successful in enhancing its ability to adapt to physical distancing, it expects a net impact from the COVID-19 pandemic of 35 cents per share in second-half fiscal 2020. Jacobs acknowledged the fact that COVID-19 woes will continue to impact the company in the fourth quarter and likely pose challenges in early fiscal 2021.

Coronavirus-related disruptions, stiff industry rivalry and currency headwinds are concerns

▼ **Competitive Pressure & Risk of Cost Overruns:** Low-entry barriers in engineering, architectural, consulting and designing market segments have escalated threats of market rivalry for Jacobs. Poor competency or business inefficiencies in the long run might diminish the market share and profitability of Jacobs from such business fragments. Moreover, the maintenance and construction sites of the company are subject to certain risks related to safety issues. Any adverse happenings at these sites might generate severe financial losses for the company.

Jacobs' contracts, particularly fixed-price ones, are subjected to risks of cost overruns. The company may experience reduced profits or losses if costs increase its budget or if the projects experiences delays. In fiscal 2019, approximately 24% of its total revenues were earned from fixed-price contracts. Both fixed-price and cost reimbursable contracts require estimation of total cost of the project in advance.

▼ **Currency Headwind:** Jacobs intends to underpin its business through increased business internationalization. In fiscal 2019 and first-quarter fiscal 2020, clients outside the United States accounted for approximately 29% and 24.6% of revenues, respectively. However, constant appreciation of the U.S. dollar with respect to other major currencies such as Euro and Yen might continue to hurt its overseas market revenues as well as profitability. This is because a strengthening dollar raises the prices of the company's construction services and subsequently, renders them less competent in markets with relatively lower exchange rates.

▼ **Overvalued Compared to Peers:** On a P/E (TTM) basis, Jacobs' stock looks a bit overvalued than the industry, with respective tallies of 17.3x and 14.2x in the past year.

Last Earnings Report

Jacobs (J) Tops Q3 Earnings & Revenue Estimates, Raises View

Jacobs Engineering Group Inc. reported third-quarter fiscal 2020 (ended Jun 26, 2020) results, wherein earnings and revenues beat the respective Zacks Consensus Estimate, courtesy of solid project execution. Meanwhile, the company raised its adjusted EBITDA and EPS guidance for fiscal 2020, based on improved performance so far this year.

Jacobs' president and CFO Kevin Berryman said, "The strategy we developed and have been executing since 2016 to build a company aligned to sustainable higher growth markets has proved its resilience during one of the most severe economic shocks in history. The highly recurring mission-critical nature of our work, combined with our ability to rapidly adjust virtually, enabled us to deliver solid earnings and strong free cash flow generation during this unprecedented pandemic."

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	3.72%
EPS Surprise	27.27%
Quarterly EPS	1.26
Annual EPS (TTM)	5.33

Earnings & Revenue Discussion

For the reported quarter, its adjusted earnings of \$1.26 per share topped the consensus estimate of 99 cents by 27.3% but decreased 10% from the year-ago period.

Jacobs' revenues totaled \$3.3 billion, which surpassed the consensus mark of \$3.1 billion by 3.7% and grew 2.9% year over year. The improvement was driven by healthy segmental performance.

Backlog at fiscal third quarter-end totaled \$23.7 billion, up 5.4% from a year ago.

Segment Details

Revenues from the Critical Mission Solutions segment of \$1.21 billion increased 4.7% year over year. Backlog at quarter-end was \$9.1 billion, up 7.2% year over year.

Revenues from the People & Places Solutions segment totaled \$2.05 billion, which increased 1.8% year over year. Revenues, excluding pass through revenues, declined 0.6% from the year-ago period. Backlog at quarter-end was \$14.6 billion, up 4.3% year over year.

Margins Profile

For the quarter under review, adjusted gross profit increased 0.4% year over year to \$630.9 million.

Adjusted operating margin expanded 80 basis points to 8.9%.

Balance Sheet & Cash Flow

At fiscal third quarter-end, Jacobs had cash and cash equivalents of \$1.02 billion, significantly up from \$631.1 million at fiscal 2019-end. Long-term debt balance increased to \$2.16 billion at the end of the reported quarter from \$1.2 billion at fiscal 2019-end.

The company provided \$359.5 million cash for operating activities for the quarter compared with \$169.1 million of cash used in operating activities a year ago.

2020 Guidance Raised

Jacobs now expects adjusted EBITDA between \$1,000 million and \$1,050 million compared with \$950-\$1,050 million expected earlier. Also, it anticipates adjusted earnings within \$5.05-\$5.30 per share compared with \$4.80-\$5.30 expected earlier.

Jacobs has been transitioning off a lower margin classified procurement contract, which will affect short-term revenue growth but have little impact on operating profit for the fiscal fourth quarter.

Recent News

Jacobs Secures Position on Highways England's TA Framework - Sep 3, 2020

Jacobs announced that it has secured a place on Highways England's Technical Advisor ("TA") Framework related to the Roads Investment Strategy ("RIS") 2 program for the strategic road network in England.

It should provide support in the development, design and construction of capital road projects in the RIS 2 program. The company has been appointed by Highways England for Lot 4 (South West and Midlands) of the Regional Delivery Partnership TA Framework.

Jacobs People & Places Solutions or PPS U.K./Europe senior vice president and general manager and global executive sponsor of Digital Strategies Donald Morrison said, "Jacobs and Highways England have a long-established relationship and this award provides an excellent opportunity to continue assisting them in the Regional Delivery Partnership as Technical Advisor."

Highways England — a government organization — is entitled to planning, improving, managing, operating and maintaining England's Strategic Road Network that consists of more than 4,300 miles of motorways as well as major A roads connecting the country, and drives economic growth.

Jacobs Wins US Air Force Contract for Critical Mission Systems - Jul 29, 2020

Jacobs received a contract from the Air Force Life Cycle Management Center's Strategic Warning & Surveillance Systems Division for Operations, Maintenance and Sustainment (OM&S) of critical mission systems for the North American Aerospace Defense Command (NORAD) Cheyenne Mountain Complex (NMC). This Integrated Tactical Warning/Attack Assessment (ITW/AA) and Space Support Contract II (NISSC II) has a maximum value of \$455 million over a six-year period of performance to Jacobs.

Jacobs (J) Inks Contract to Improve Sydney Rail Network - Jul 21, 2020

Jacobs Engineering Group Inc. along with Australian rail group John Holland has been selected by Transport for New South Wales (TfNSW) to deliver design and construction services for the More Trains, More Services - North Works Package project.

The project — worth approximately \$195 million — comprises upgrade of critical infrastructure along T4 Illawarra, T8 Airport and South Coast lines between Central and Hurstville in Sydney. This will support the roll out of new suburban and intercity trains, remove bottlenecks, as well as increase the frequency of services for Sydney rail customers.

Valuation

Jacobs shares are up 2.4% in the year-to-date period but down 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.2% but are up 4.5% in the Zacks Construction sector in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.4% but sector is up 14.7%.

The S&P 500 index is up 6.6% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 16.22X forward 12-month earnings, which compares to 18.18X for the Zacks sub-industry, 17.9X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.59X and as low as 10.35X, with a 5-year median of 15.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$97 price target reflects 17X forward 12-month earnings.

The table below shows summary valuation data for J

Valuation Multiples - J					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.22	18.18	17.9	22.85
	5-Year High	19.59	18.94	18.97	23.44
	5-Year Low	10.35	10.36	10.74	15.26
	5-Year Median	15.34	14.26	15.86	17.63
P/S F12M	Current	0.87	0.87	2.02	4.19
	5-Year High	0.98	0.87	2.13	4.29
	5-Year Low	0.37	0.37	1.18	3.11
	5-Year Median	0.63	0.61	1.65	3.66
EV/EBITDA TTM	Current	11.21	6.99	18.82	14.87
	5-Year High	18.8	10.52	21.28	15.6
	5-Year Low	6.45	5.23	12.38	9.51
	5-Year Median	10.49	7.62	17.89	12.99

As of 09/04/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Dycom Industries, Inc. (DY)	Outperform	1
Primoris Services Corporation (PRIM)	Outperform	1
AECOM (ACM)	Neutral	3
Fluor Corporation (FLR)	Neutral	3
KBR, Inc. (KBR)	Neutral	3
MasTec, Inc. (MTZ)	Neutral	3
Quanta Services, Inc. (PWR)	Neutral	3
Willdan Group, Inc. (WLDN)	Neutral	3

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

Industry Comparison Industry: Engineering - R And D Services				Industry Peers		
	J	X Industry	S&P 500	ACM	FLR	PWR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	B	A
Market Cap	11.97 B	2.47 B	23.38 B	6.15 B	1.26 B	7.17 B
# of Analysts	8	2	14	3	3	6
Dividend Yield	0.83%	0.00%	1.62%	0.00%	0.00%	0.38%
Value Score	C	-	-	B	A	B
Cash/Price	0.09	0.08	0.07	0.21	NA	0.07
EV/EBITDA	21.69	10.61	13.13	22.67	NA	8.64
PEG F1	1.57	1.50	2.96	1.50	NA	1.09
P/B	2.03	2.13	3.22	1.58	NA	1.83
P/CF	14.27	8.64	12.65	8.64	2.25	10.09
P/E F1	17.72	18.77	21.59	18.51	7.33	15.80
P/S TTM	0.89	0.61	2.44	0.42	0.07	0.61
Earnings Yield	5.64%	4.10%	4.42%	5.39%	13.64%	6.33%
Debt/Equity	0.37	0.60	0.70	0.53	NA	0.34
Cash Flow (\$/share)	6.44	1.90	6.93	4.44	4.01	5.15
Growth Score	A	-	-	B	D	A
Historical EPS Growth (3-5 Years)	14.45%	13.22%	10.41%	-4.43%	NA	29.97%
Projected EPS Growth (F1/F0)	2.70%	-23.06%	-4.75%	-24.61%	111.94%	-1.20%
Current Cash Flow Growth	6.22%	3.89%	5.22%	-0.31%	14.03%	14.87%
Historical Cash Flow Growth (3-5 Years)	9.65%	8.80%	8.49%	15.22%	-9.29%	4.47%
Current Ratio	1.69	1.58	1.35	1.27	NA	1.74
Debt/Capital	26.81%	39.39%	42.95%	34.51%	NA	25.14%
Net Margin	4.11%	0.23%	10.25%	-2.91%	NA	3.13%
Return on Equity	12.25%	8.27%	14.59%	9.85%	NA	11.02%
Sales/Assets	1.09	1.07	0.50	1.06	NA	1.40
Projected Sales Growth (F1/F0)	5.21%	-4.24%	-1.42%	-35.53%	-1.87%	-6.03%
Momentum Score	D	-	-	C	C	C
Daily Price Change	1.05%	0.00%	-0.30%	1.08%	5.25%	0.93%
1-Week Price Change	0.72%	1.89%	2.59%	2.48%	3.43%	3.65%
4-Week Price Change	1.65%	0.00%	2.00%	0.16%	-18.59%	14.42%
12-Week Price Change	14.76%	3.30%	10.57%	-0.10%	-23.10%	41.29%
52-Week Price Change	0.66%	-5.27%	1.69%	3.48%	-54.07%	51.32%
20-Day Average Volume (Shares)	655,886	26,395	1,827,096	960,880	2,030,850	1,249,584
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.39%	0.00%	0.00%	0.48%	-0.61%	3.90%
EPS F1 Estimate 12-Week Change	3.88%	1.56%	3.89%	0.32%	-0.61%	5.27%
EPS Q1 Estimate Monthly Change	-2.78%	-1.77%	0.00%	-5.83%	-3.33%	-0.77%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	B

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

Disclosures

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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.

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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