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Sep 18, 2020

Kellogg Company (K)

$63.51 (As of 09/17/20)

Price Target (6-12 Months): **$67.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/01/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: A	

Summary

Kellogg's shares have underperformed the industry in the past three months. The company's second-quarter 2020 results were somewhat affected by divestiture of the cookies, fruit snacks, pie crusts and ice-cream cone businesses and currency woes. Also, high COVID-19-related costs along with shift of investments to the second half of 2020 are likely to weigh on margins. Moreover, the away-from-home business is likely to remain soft in the second half. Nevertheless, the company has been seeing increased demand amid the coronavirus-led higher at-home consumption. This also helped Kellogg retain its organic sales trend in second-quarter, wherein both top and bottom lines beat the consensus mark. Notably, organic sales were solid in all regions, with developed regions seeing particularly strong demand for cereal and frozen food products.

Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$72.88 - $52.66**
20-Day Average Volume (Shares)	**2,080,270**
Market Cap	**$21.8 B**
Year-To-Date Price Change	**-8.2%**
Beta	**0.60**
Dividend / Dividend Yield	**$2.28 / 3.6%**
Industry	**Food - Miscellaneous**
Zacks Industry Rank	**Bottom 33% (167 out of 251)**
Last EPS Surprise	**33.3%**
Last Sales Surprise	**5.7%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**11/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**15.2**
P/E F1	**16.1**
PEG F1	**3.6**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,336 E	3,372 E	3,438 E	3,338 E	13,422 E
2020	3,412 A	3,465 A	3,385 E	3,397 E	13,655 E
2019	3,522 A	3,461 A	3,372 A	3,223 A	13,578 A

EPS Estimates

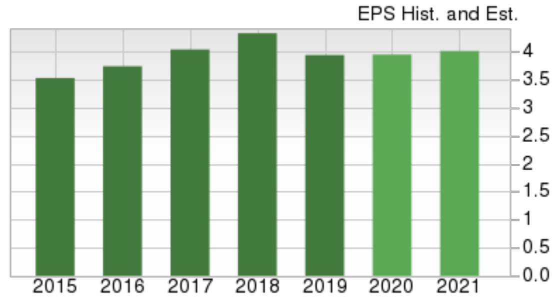
	Q1	Q2	Q3	Q4	Annual*
2021	$0.98 E	$1.09 E	$1.00 E	$0.93 E	$4.01 E
2020	$0.99 A	$1.24 A	$0.87 E	$0.87 E	$3.95 E
2019	$1.01 A	$0.99 A	$1.03 A	$0.91 A	$3.94 A

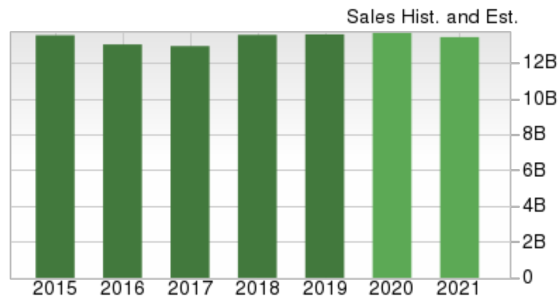
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/17/2020. The reports text is as of 09/18/2020.

Overview

Headquartered in Battle Creek, MI, **Kellogg Company** (K) manufactures and markets ready-to-eat cereals and convenience foods (including cookies, crackers, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods), and savory snacks. The company has a balanced portfolio of cereal and snack products.





Kellogg's products are manufactured in 20 countries and marketed across 180 nations. Principal markets for the products offered include the United States and United Kingdom.

We note that earlier the company reported results under seven segments namely; U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels, North America Other, Europe, Latin America and Asia Pacific. The U.S. Snacks unit includes items such as crackers, cookies, cereal bars, savory snacks and fruit-flavored snacks. The U.S. Morning Foods unit consist of mainly cereals and toaster pastries. U.S. Specialty Channels consists of food away from home channels, including food service, convenience, vending and food manufacturing. Further, the North America Other unit includes U.S. Frozen, Kashi, Canada, and RX operating segments. The remining segments are based on geographical locations, namely; Europe, Latin America and the Middle East and Northern Africa.

Concurrent to its fourth-quarter 2018 results, Kellogg unveiled some changes related to its segments for 2019. As part of its efforts to reorganize its North America region, the sub divisions – U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels and North America Other – have been removed.

Further, the company has transferred its Middle East, Turkey and North African businesses from Kellogg Europe to Kellogg Asia-Pacific. Kellogg Asia-Pacific has been rechristened as Kellogg Asia, Middle East & Africa. As per these changes, the company now reports its quarterly outcomes under four segments, namely; North America, Europe, Latin America and the Asia, Middle East & Africa or AMEA region.

In 2019, the company generated sales of $13.6 billion (61.8% from North America, 15.4% from Europe, 6.9% from Asia-Pacific and 15.9% from Latin America).

Source: Zacks Investment Research

Reasons To Buy:

> Kellogg has been gaining on demand for packaged food products amid the coronavirus-led stockpiling. Such trends helped the company retain its robust organic sales trend in the second-quarter.

▲ **Solid Q2 & Raised 2020 Guidance:** Kellogg posted splendid second-quarter 2020 results, wherein both earnings and sales beat the Zacks Consensus Estimate and the bottom line surged year over year. Notably, adjusted earnings of $1.24 per share jumped 25.3% year over year, cruising ahead of the Zacks Consensus Estimate of 93 cents. On a constant-currency (cc) basis, adjusted earnings came in at $1.26 per share, which increased 27.3% from the year-ago quarter's figure. The company delivered net sales of $3,465 million, which surpassed the consensus mark of $3,277 million. Adverse impacts from divestiture of the company's cookies, fruit snacks, pie crusts and ice-cream cone businesses as well as currency headwinds were offset by robust organic sales growth in other businesses, resulting from pandemic-led increased buying.

Further, Kellogg gained from its efforts to raise production in order to meet the rising demand, which helped it battle high costs. The company also shifted a considerable amount of investments related to brands, supply-chain and commercial plans to the second half of 2020, which aided its profit and earnings during the June-end quarter. The better-than-expected performance encouraged management to perk up its guidance for 2020. Adjusted operating profit is expected to decline nearly 1% at cc now compared with the 4% drop projected earlier. Adjusted earnings per share are expected to drop roughly 1% at cc compared with the 3-4% decline estimated before.

▲ **High Demand Aids Organic Sales in Q2:** Kellogg has been benefiting from increased demand for packaged food products amid the coronavirus-led stockpiling. Such trends also helped the company retain its organic sales trend in second-quarter 2020, which moved up 9.2% to $3,569 million (on excluding currency and divestitures). Management stated that demand increase for packaged food owing to the pandemic-led higher at-home consumption prevailed for a longer-than-expected period. This, in turn, fueled the company's sales in retail channels and helped it counter the declines in food sold in the away-from-home network.

Notably, organic sales grew across regions, mostly due to elevated cereal sales that compensated for declines in snacks sales. Organic sales in the ongoing year are now estimated to grow around 5%, up from the previous guidance of 1-2%. Prior to this, organic sales grew 8% in the first quarter and 2.7% each in the fourth and third quarters of 2019.

▲ **Lucrative Buyouts:** In line with the strategy to diversify its organic offerings, Kellogg acquired protein bar maker, Chicago Bar Company, in 2017. Chicago Bar Company makes RXBAR, which is considered the one of the fastest growing nutrition bar brand in the United States. RX now forms part of Kellogg's organic revenues. Additionally, the company's Pringles buyout has been lucrative. Markedly, with the 2012 Pringles deal, Kellogg transformed itself from what was essentially a large U.S. snacks business to a true global snacks player. Also, the consolidation of Multipro (completed in May 2018), a Nigerian food distributor has been yielding. Incidentally, gains in Multipro partly drove Kellogg's organic sales in the Asia, Middle East and Africa segment during the second quarter of 2020. Markedly, these acquired businesses are expected to continue supporting the company' business. Kellogg also continues to expand its acquired brands through new product introductions.

▲ **Growth Efforts on Track:** Kellogg's productivity saving initiatives, have been on track. In this respect, the company is striving toward building a better cost structure. We note that the company successfully completed the Project K program. Savings from this program are being invested in brand-building initiatives, improve logistics, sales capabilities and innovation. Further, the company is on track with the Deploy for Growth strategy, and is accordingly undertaking efforts to restructure portfolio. As part of portfolio restructuring efforts, the company completed the sale of certain snacks, cookies, crusts and ice cream businesses in July, 2019. Though this divestiture is likely to weigh on the company's results in the near term, such efforts are likely to aid focusing on other lucrative business platforms and achieve greater efficiency. Moreover, the divestitures have helped the company to reduce debt and improve its financial position.

▲ **Strong Brand Portfolio:** Kellogg boasts a legacy of over 100 years built on solid product portfolio and brand identity in both cereals and snacks. Its portfolio consists of strong brands such as Pringles, RXBAR, Bear Naked, Cheez-It, Rice Krispies Treats among many others. The company's frozen foods brands like Morningstar Farms and Eggo have also been depicting strong growth. Kellogg is also dedicated toward augmenting its portfolio through adding more products under existing brands, innovation and marketing initiatives. The company has been focused on investing in brand-building efforts. In this respect, it invests in digital media, consumer promotions and traditional advertising. Kellogg has also been enhancing its in-store capabilities like increasing sales force of its struggling businesses.

▲ **Financial Analysis:** As of the end of second-quarter 2020 (Jun 27, 2020), Kellogg's long-term debt (including operating lease liabilities) dropped 1.3% sequentially to nearly $7.5 billion. Moreover, the company's times interest earned ratio improved sequentially from 6.1 as of the end of the first quarter to 6.6 as of the second-quarter-end. We note that Kellogg' second-quarter cash flow jumped considerably from the year-ago level. The company generated cash flow of more than $750 million on a year-to-date basis, depicting its strongest first-half performance in a long time. This, along with proceeds from last year's divestiture, has also helped Kellogg lower its debt load and boast a solid cash balance. At the end of the second quarter, the company had cash balance of more than $1 billion. Apart from a solid cash balance, Kellogg has good access to commercial paper. Also, it has backup funding worth $2.5 billion. The company remains focused on maintaining its financial flexibility amid a tough operating environment, and remains well placed in terms of liquidity and balance sheet position – for the second half of 2020.

Reasons To Sell:

- **Second Half View:** Although Kellogg raised its guidance for full-year 2020, the company expects net sales growth to slow down in the second half of the year. The company expects at-home demand in developed markets to decelerate throughout the third quarter. Kellogg expects the away-from-home business to remain soft and the emerging markets to continue reeling under pandemic-led disruptions and economic recession in the second half of 2020. Further, the company expects gross margin to be under pressure in the second half due to absence of divestiture-related benefits, slowdown in volumes, COVID-19-related costs, lower productivity savings and plant-related changes as the company restarts production in some paused SKUs. Further, increased investments in the second half are likely to weigh on profits. Shares of Kellogg have lost 5.6% in the past three months against the industry's growth of 6.2%.

Softness in the away-from-home food business and disruptions in some emerging markets amid the pandemic are concerning. Also, high COVID-19-related costs are likely to hurt profits.

- **Divestitures Hurt Q2 Performance:** Kellogg's second-quarter 2020 net sales of $3,465 million continued to bear adverse impacts from the divestiture of cookies, fruit snacks, pie crusts and ice-cream cone businesses (concluded in July 2019). Absence of the divested businesses dragged down sales by about 6% in the second quarter and exerted pressure on the company's North American unit. For full-year 2020, management expects divestiture impacts on Kellogg's adjusted operating profit and earnings per share, which are expected to decline year over year but at a lower rate compared to before.

- **Elevated Costs:** Kellogg has been incurring elevated costs related to operations amid the pandemic, such as costs around safety, logistics, temporary labor and employee benefits. In the second quarter, incremental costs associated with coronavirus were more than $20 million. In its second-quarter earnings release, Kellogg said that it expects to sustain direct costs associated with sanitization, safety and labor. Also, the company pushed certain investments related to brands, supply-chain and commercial plans to the second half of 2020. Though these aided performance in the second quarter, they are likely to put pressure on operating profits in the second half, especially the third quarter.

- **Away-from-Home Business Under Pressure, Emerging Markets Soft:** While higher at-home consumption is driving Kellogg's retail demand, the company's foodservice business has been under pressure due to declines in food sold in the away-from-home network. This was witnessed in the second quarter of 2020, wherein away-from-home business fell sharply, with major declines across vending, travel and lodging and restaurants. Away-from-home sales related to travel are likely to remain soft for a while. During the second quarter, the company saw soft snacks sales in most regions due to factors like lower demand for on-the-go foods and pack-formats, high-frequency store closures in some regions and slowing economies in some markets in Asia, Middle East and Africa.

  The company predicts away-from-home demand to take some time to recover, and emerging markets to be affected by the slowing economies. Management also commented that its emerging market performance has been sluggish amid the lockdown and economic softness. For Latin America, the company remains cautious about second-half performance due to the rising number of coronavirus cases and a soft economy.

- **Currency Headwinds:** Kellogg's solid international presence keeps the company exposed to risks associated with overseas operations. Volatile currency movement is one such risk. Notably, adverse currency rate hurt the company's top line by 3% in the second quarter and also impacted the adjusted operating profit. Persistence of such trends remain a threat.

- **Food Industry Headwinds:** The food industry grapples with stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Kellogg may have to lower prices or indulge in marketing activities to maintain market share. Additionally, since the company operates in a highly regulated nutritional food space, its products are frequently inspected by government agencies. Moreover, nutritional products usually have a lower shelf life which requires products to move off the shelves rapidly, to prevent expiry.

Last Earnings Report

Kellogg Perks Up Guidance on Q2 Earnings & Sales Beat

Quarter Ending	06/2020
Report Date	**Jul 30, 2020**
Sales Surprise	**5.73%**
EPS Surprise	**33.33%**
Quarterly EPS	**1.24**
Annual EPS (TTM)	**4.17**

Kellogg reported splendid second-quarter 2020 results. Adjusted earnings of $1.24 per share jumped 25.3% year over year, cruising ahead of the Zacks Consensus Estimate of 93 cents. On a constant-currency (cc) basis, adjusted earnings came in at $1.26 per share, which increased 27.3% from the year-ago quarter's figure.

The company delivered net sales of $3,465 million, which climbed 0.1%, year on year, as well as surpassed the consensus mark of $3,277 million. Adverse impacts from divestiture of the company's cookies, fruit snacks, pie crusts and ice-cream cone businesses, as well as currency headwinds were offset by robust organic sales growth in other businesses, resulting from pandemic-led increased buying. Absence of the divested businesses affected sales by about 6%, whereas currency headwinds had a roughly 3% impact on the top line.

Organic sales (excluding currency and divestitures) moved up 9.2% to $3,569 million. Management stated that demand increase for packaged foods owing to the pandemic-led higher at-home consumption prevailed for a longer-than-expected period. This, in turn, fueled the company's sales in retail channels and helped it counter the declines in food sold in the away-from-home network. Adjusted operating profit jumped 24.2% to $562 million, whereas the metric rose 26.7% to $573 million at cc.

Segment Discussion

Sales in the **North America** segment amounted to $2,167 million, up 0.9% as divestiture impacts were countered by impressive growth in other businesses amid the pandemic. Sales grew 11.1% on an organic basis. Moreover, adjusted operating profit jumped about 23% at cc — due to the same factors fueling sales in the segment.

Revenues in the **Europe** segment totaled $546 million, up 0.8% year on year, including currency headwinds of more than 3%. Further, sales rose 4.1% on an organic basis, on increased cereal demand amid the pandemic. Robust cereal sales countered the anticipated declines in snacks — due to lower demand for on-the-go foods and pack-formats; sluggish Russian sales due to a soft economy and delay in marketing plans for Pringles. Adjusted operating profit improved 35% at cc.

Revenues in **Latin America** totaled $223 million, down 6.9% year on year due to currency headwinds of 20%. Sales grew 14.3% on an organic basis on solid cereal sales. Strong cereal sales compensated for weak snacks sales stemming from the pandemic-led closure of high-frequency stores and lower on-the-go snacking occasions. Adjusted operating profit surged 89% at cc.

Revenues in the **Asia, Middle East & Africa** segment totaled $529 million, down 0.7% year over year, including currency headwinds of about 6%. Sales improved 5.1% on an organic basis as continued growth in Multipro and cereal sales and gains in Nigeria compensated for soft snacks sales. Snacks sales were hurt by the pandemic-induced hurdles, and slowing economies in some markets in Asia, Middle East and Africa. Adjusted operating profit was up 4% at cc.

Other Financials

Kellogg ended the April-June quarter with cash and cash equivalents of $1,047 million, long-term debt of $6,929 million and total equity of $3,406 million. In the year-to-date period, the company has generated cash from operating activities of $971 million. Cash flow from operating activities is now likely to be $1.6 billion in 2020 compared with the previously-guided range of $1.5-$1.6 billion. Capital expenditures are still expected to be $0.6 billion and cash flow is now estimated to be roughly $1 billion. Cash flows were projected in the band of $0.9-$1 billion earlier.

2020 Guidance

Kellogg expects at-home consumption increases to moderate to normal levels by fourth-quarter 2020. The company predicts away-from-home demand to take some time to recover, and it also anticipates emerging markets to be affected by the slowing economies. Additionally, Kellogg expects to sustain direct costs associated with sanitization, safety and labor, and has also pushed certain brand investments to the second half of 2020. Nevertheless, the company raised the 2020 guidance on the back of robust sales and profits in the first half.

Organic sales in the ongoing year are now estimated to grow around 5%, up from the previous guidance of 1-2%. Adjusted operating profit is expected to decline nearly 1% at cc now compared with the 4% drop projected earlier. Adjusted earnings per share are expected to dip roughly 1% at cc compared with the 3-4% decline estimated before. Adjusted operating profit and earnings will likely bear divestiture impacts.

Recent News

Kellogg Declares Dividend – Jul 24, 2020

Kellogg’s board approved a dividend of 57 cents per share, payable on Sep 15, 2020, to shareholders in record as on Sep 1.

Valuation

Kellogg’s shares are down 5.7% in the year-to-date period and up 3.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.6% in the year-to-date period, while the Zacks Consumer Staples sector is down 3.8%. Over the past year, the Zacks sub-industry is up 3.8%, while the sector declined 1.2%.

The S&P 500 index is up 6.6% in the year-to-date period and 15.2% in the past year.

The stock is currently trading at 15.9X forward 12-month earnings, which compares to 18.86X for the Zacks sub-industry, 19.92X for the Zacks sector and 22.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.71X and as low as 12.45X, with a 5-year median of 16.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $67 price target reflects 16.77X forward 12-month earnings.

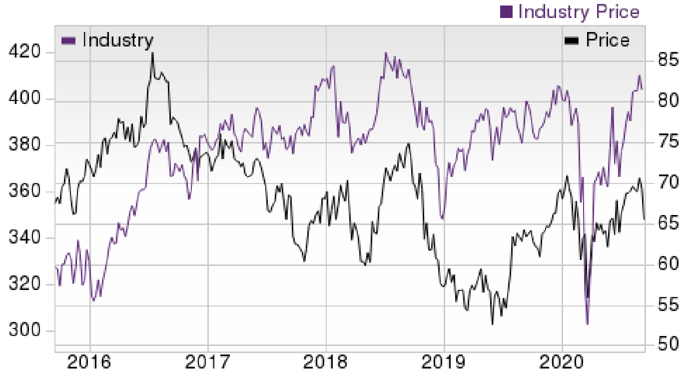
The table below shows summary valuation data for K

Valuation Multiples - K

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.9	18.86	19.92	22.37
	5-Year High	22.71	22.9	22.37	23.44
	5-Year Low	12.45	14.74	16.62	15.26
	5-Year Median	16.45	18.57	19.64	17.63
P/S F12M	Current	1.62	1.68	9.6	4.13
	5-Year High	2.28	2.05	11.15	4.29
	5-Year Low	1.32	1.4	8.12	3.11
	5-Year Median	1.77	1.74	9.89	3.66
EV/EBITDA F12M	Current	12.67	13.27	34.74	14.47
	5-Year High	14.34	14.68	37.28	19.68
	5-Year Low	10.29	10.79	25.83	13.54
	5-Year Median	12.25	13.09	33.72	16.52

As of 09/17/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 33% (167 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. **(BGS)**	Neutral	2
BRF S.A. **(BRFS)**	Neutral	3
Conagra Brands Inc. **(CAG)**	Neutral	3
Campbell Soup Company **(CPB)**	Neutral	3
General Mills, Inc. **(GIS)**	Neutral	3
The Kraft Heinz Company **(KHC)**	Neutral	3
Tingyi Cayman Islands Holdings Corp. **(TCYMF)**	Neutral	3
Aramark **(ARMK)**	Underperform	4

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

Industry Comparison Industry: Food - Miscellaneous

	K	X Industry	S&P 500	ARMK	CAG	GIS
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	A	-	-	D	A	A
Market Cap	21.78 B	3.59 B	23.91 B	7.14 B	17.00 B	35.18 B
# of Analysts	7	3	13.5	7	8	8
Dividend Yield	3.59%	0.00%	1.62%	1.56%	2.44%	3.40%
Value Score	B	-	-	C	B	C
Cash/Price	0.06	0.09	0.07	0.35	0.03	0.05
EV/EBITDA	13.25	12.35	13.24	9.37	13.73	12.13
PEG F1	3.53	5.39	2.97	307.63	2.08	2.18
P/B	6.39	2.35	3.29	2.47	2.13	4.21
P/CF	11.84	11.55	12.82	6.03	11.27	12.54
P/E F1	15.88	19.20	21.49	1,647.33	14.54	16.33
P/S TTM	1.62	1.30	2.52	0.51	1.54	2.00
Earnings Yield	6.22%	4.97%	4.40%	0.07%	6.87%	6.13%
Debt/Equity	2.03	0.55	0.70	3.17	1.12	1.31
Cash Flow ($/share)	5.36	2.75	6.93	4.68	3.09	4.59
Growth Score	A	-	-	C	A	A
Historical EPS Growth (3-5 Years)	3.36%	5.17%	10.41%	5.22%	-2.26%	3.19%
Projected EPS Growth (F1/F0)	0.22%	2.45%	-4.73%	-99.23%	4.99%	-2.32%
Current Cash Flow Growth	-9.43%	4.54%	5.26%	5.25%	22.57%	9.11%
Historical Cash Flow Growth (3-5 Years)	-0.49%	6.08%	8.49%	6.35%	4.34%	3.48%
Current Ratio	0.77	1.65	1.35	2.15	0.88	0.68
Debt/Capital	67.04%	35.90%	42.95%	76.02%	52.82%	56.69%
Net Margin	8.09%	2.97%	10.25%	-1.61%	7.60%	12.37%
Return on Equity	43.36%	9.73%	14.66%	6.76%	14.38%	27.66%
Sales/Assets	0.75	1.02	0.50	0.96	0.49	0.58
Projected Sales Growth (F1/F0)	0.57%	0.00%	-1.43%	-20.32%	-2.92%	-2.75%
Momentum Score	A	-	-	F	D	C
Daily Price Change	-0.66%	0.00%	-0.48%	-1.64%	0.03%	-1.99%
1-Week Price Change	-5.46%	-1.06%	-1.87%	-2.83%	-7.16%	-7.30%
4-Week Price Change	-7.61%	0.00%	0.96%	20.89%	-8.35%	-10.33%
12-Week Price Change	-3.05%	6.64%	8.69%	26.98%	3.29%	-4.56%
52-Week Price Change	-0.36%	-2.17%	1.36%	-33.43%	17.33%	5.87%
20-Day Average Volume (Shares)	2,080,270	155,651	1,917,443	2,583,700	2,848,643	2,786,682
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-14.29%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	-87.18%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	3.86%	2.65%	4.14%	-96.31%	3.79%	1.04%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-101.68%	0.00%	-0.67%

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	B
Growth Score	A
Momentum Score	A
VGM Score	A

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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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 mediumterm 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 mostrecent 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.