

Kraft Heinz(KHC)

\$40.58 (As of 06/29/21)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/31/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

Summary

Kraft Heinz has outpaced the industry in the past six months. Solid pricing initiatives have been aiding the company for a while now. This was seen in its first-quarter 2021 results, with sales and earnings beating the consensus mark and rising year over year. Well, strength across all business units contributed to the company's results. Also, volume/mix improved on favorable changes in retail inventory levels, mainly in developed markets where retail consumption continued to remain solid, and sustained growth in emerging markets. The company's operating model that focuses on five key elements bodes well. However, higher SG&A cost is a headwind. Also, Kraft Heinz witnessed supply chain inflation and higher spending due to strategic investments. In fact, these factors put pressure on its adjusted EBITDA during the first quarter.

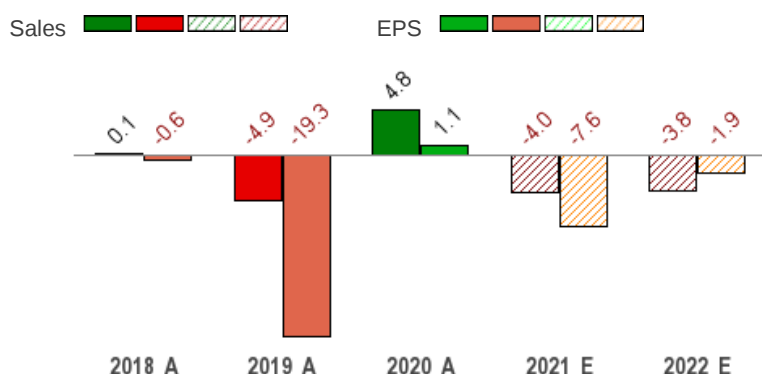
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$44.95 - \$28.56
20-Day Average Volume (Shares)	4,694,249
Market Cap	\$49.6 B
Year-To-Date Price Change	17.1%
Beta	1.12
Dividend / Dividend Yield	\$1.60 / 3.9%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 18% (206 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.0%
Last Sales Surprise	2.2%
EPS F1 Estimate 4-Week Change	-0.2%
Expected Report Date	07/29/2021
Earnings ESP	-2.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,943 E	6,248 E	5,893 E	6,449 E	24,187 E
2021	6,394 A	6,580 E	5,921 E	6,272 E	25,143 E
2020	6,157 A	6,648 A	6,441 A	6,939 A	26,185 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.64 E	\$0.72 E	\$0.61 E	\$0.68 E	\$2.61 E
2021	\$0.72 A	\$0.72 E	\$0.58 E	\$0.64 E	\$2.66 E
2020	\$0.58 A	\$0.80 A	\$0.70 A	\$0.80 A	\$2.88 A

*Quarterly figures may not add up to annual.

P/E TTM	13.4
P/E F1	15.3
PEG F1	4.2
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/29/2021. The report's text and the

analyst-provided price target are as of 06/30/2021.

Overview

Headquartered in Pittsburgh, PA, The Kraft Heinz Company (KHC) is one of the largest consumer packaged food and beverage companies in North America. It manufactures and markets food and beverage products like condiments and sauces, cheese as well as dairy, meals, meats, refreshment beverages, coffee, and other grocery products.

Its popular brands include Heinz, Kraft, Oscar Mayer, Planters, Philadelphia, Velveeta, Lunchables, Maxwell House, Capri Sun, and Ore-Ida. Notably, the company generates sales across roughly 190 countries and territories.

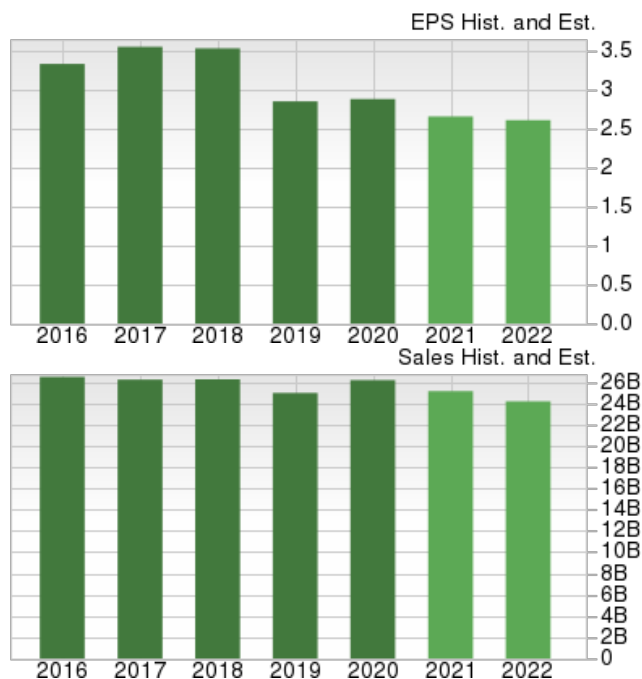
Well, the merger of Kraft Foods Group, Inc. ("Kraft") with and into a wholly-owned subsidiary of H.J. Heinz Holding Corporation ("Heinz") was concluded in July 2015. Upon the merger, Heinz was rechristened as The Kraft Heinz Company and H.J. Heinz Holding Corporation was renamed to Kraft Heinz Foods Company. Kraft and Heinz were both pioneers in the food space for more than 100 years.

We note that, in the first quarter of 2020, the company changed its internal reporting and reportable segments. Following this, the Puerto Rico business has moved from the Latin America zone to the United States zone. Also, it has combined its Europe, Middle East, and Africa ("EMEA"), Latin America, and Asia Pacific ("APAC") zones to create International zone.

Effective first-quarter 2020, Kraft Heinz has three reportable segments defined by geographic region:

United States (72.1% of the total revenues in Q121), Canada (6.1%) and International (21.8%).

On Jan 30, 2019, Kraft Heinz announces the completion of sales of Indian brands namely Glucon-D, Nycil, Complian and Sampriti to Zydus Wellness Limited.



Reasons To Buy:

- ▲ **Impressive Q1 Results, Decent View:** Shares of Kraft Heinz have gained 17.1% in the past six months compared with the industry's growth of 7%. The company reported stellar first-quarter 2021 results, with the top and the bottom line surpassing the Zacks Consensus Estimate as well as rising year over year. Markedly, the company registered strong net sales, favorable product mix and lower general corporate expenses. Also, sturdy performance across all business segments contributed to the company's quarterly results.

Solid pricing initiatives have been aiding Kraft Heinz for a while now. Also, its operating model that focuses on five key elements bodes well.

Quarterly adjusted earnings of 72 cents a share surged 24.1%, owing to increase in adjusted EBITDA, lower effective tax rate and reduced depreciation and amortization costs. Further, net sales of \$6,394 million increased 3.9% year over year including a 1.4 percentage point favorable impact from currency. Notably, organic net sales rose 2.5% despite an adverse impact from exiting the McCafe licensing agreement. We note that positive contributions from all reporting segments favorably impacted the metric. Additionally, volume/mix improved 1.0 percentage points thanks to favorable changes in retail inventory levels, mainly in developed markets where retail consumption continued to remain solid as well as sustained growth in emerging markets.

Taking into account to-date performance, Kraft Heinz envisions a mid-single-digit percentage growth in both organic net sales and constant currency adjusted EBITDA in the second quarter from 2019 levels. The outlook equals to a low-single-digit percentage decline in organic net sales and a mid-single-digit percentage fall in constant currency adjusted EBITDA when compared with the 2020 period. That said, management highlighted that comparison to the 2019 period is more reasonable than the 2020 period that witnessed unprecedented pandemic-related demand. Moreover, the company continues to anticipate 2021 financial performance to be ahead of its strategic plan.

- ▲ **Strength in Operating Model:** In September 2020, Kraft Heinz laid out a new operating model which incorporates five key elements which includes People with Purpose, Consumer Platforms, Ops Center, Partner Program and Fuel Our Growth. Notably, the Consumer Platforms represents a portfolio of six consumer-driven platforms like Taste Elevation, Easy Meals Made Better as well as Real Food Snacking among others. In first-quarter 2021 earnings call, management highlighted that its priority platforms and geographies continued to witness solid growth. Its Grow platforms, excluding foodservice, contributed to the topline and increased 8% year over year. Taste Elevation platform, excluding foodservice, was up 15% in the first quarter. Well, Kraft Heinz is focused on accelerating its international growth strategy based around Taste Elevation and foodservice platform. In this regard, the company signed an agreement to buy sauces-focused business — Assan Foods — from privately-held Turkish conglomerate, Kibar Holding.

Ops Center element will enable Kraft Heinz to establish an efficient, fast and integrated supply chain network. In fact, management earlier stated that it expects to achieve nearly \$2 billion of gross productivity efficiencies through 2024. Notably, it achieved nearly \$400 million of gross productivity efficiencies during 2020. Moreover, management in its last earnings call highlighted that it expects to deliver \$400 million worth of gross efficiencies in 2021 as well. Also, the company notified that its Ops team is on track to expand capacity in critical categories. Moreover, Partner Program element is designed to create solid customer partnerships and develop new strategic partnerships. Lastly, the Fuel Our Growth strategy is aimed at investing in growth opportunities, solidify its long-term market position as well as stay committed to shareholder returns. Also, this strategy will help the company manage its portfolio and accelerate its strategic plan, augment geographic presence, increase focus on growth areas as well as undertake sustainable pricing actions. Keeping this in mind, Kraft Heinz recently sold its nuts business to Hormel Foods. Also, the company announced an agreement to offload its Natural, Grated, Cultured and Specialty cheese businesses to a U.S. affiliate of Groupe Lactalis in September 2020. The company expects to close this deal by the second half of 2021.

- ▲ **Pricing Strategies Bode Well:** Solid pricing initiatives have been aiding Kraft Heinz for a while now. In first-quarter 2021, pricing was up 1.5 percentage points year over year, reflecting lower retail promotions and revenue management gains that more than offset unfavorable trade expense timing. During the quarter, pricing in the United States moved up 1.0 percentage points. In Canada, pricing moved up 4.9 percentage points, while the metric increased 2.2 percentage points within International markets. We believe that Kraft Heinz's robust pricing actions are helping the company mitigate adverse impacts of cost inflation.
- ▲ **Financial Status:** Kraft Heinz's long-term debt of \$27,074 at the end of first-quarter 2021 (as of Mar 27, 2021) fell from \$28,070 million reported in the preceding quarter. Further, the company's current portion of long-term debt as well as commercial paper and other short-term debt stood at \$132 million as of Mar 27, while its cash and cash equivalents was \$2,360 million. Moreover, its debt-to-capitalization ratio of 0.35 stands better than the preceding quarter's figure of 0.36. Further, the company's times interest earned ratio is at 1.8, higher than the last quarter's ratio of 1.7. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.

Moreover, Kraft Heinz looks well placed on the dividend payout front. With its first-quarter results, the company declared a quarterly dividend of 40 cents per share, which was payable on Jun 25, 2021. Currently, Kraft Heinz has a dividend payout of 53%, dividend yield of 3.9% and free cash flow yield of 9.7%.

- ▲ **Efficiency Building Plans on Track:** In order to ramp up overall business, management laid down certain enterprise transformation strategies. In this context, the company is on track to improve efficiency across its supply chain, with particular emphasis on procurement, manufacturing and distribution. During third-quarter 2019, the company had implemented nine transformational projects to strengthen some of the core areas of the business. Among them, five projects are directed toward bolstering the top line, two for enhancing operational efficiencies and the remaining for increasing effectiveness. Another important focus-area of the company is its workforce. Management

believes that strength in its people plays a key role in realizing the company's strategic goals. As a result, management has undertaken several moves to strengthen the company's leadership.

In terms of cost savings, the company has been increasing visibility and control of its cost components. It is also keeping a close watch on investments made for enhancing sales and customer services. Further, the company is on track with examining its SKU's to remove complexities and boost mix. In this regard, the company's Ops Center platform has been driving efficiency gains via simplification and waste reduction. Notably, the company benefited from simplifying its assortment and improving capacity through a 16% reduction in SKUs during 2020. Other productivity improvement initiatives include programs such as zero-based budgeting; modernization and capability building within the manufacturing footprint and building a performance driven culture in the company. A portion of the gains from such initiatives are re-invested in the business for innovation, brand building and advertising to stimulate top-line growth.

Reasons To Sell:

▼ **Cost Woes:** During the first quarter of 2021, Kraft Heinz's SG&A expenses increased from \$1,088 million to \$1,112 million. Moreover, Kraft Heinz is seeing a rise in SG&A expenses, excluding impairment losses for a while now. Notably, the metric increased from \$862 million reported in the year-ago quarter to \$882 million during the quarter. We believe that persistence of such trends is a threat to the company's performance in the future.

Kraft Heinz witnessed supply chain inflation and higher spending owing to strategic investments in the first quarter of 2021.

Apart from this, Kraft Heinz witnessed supply chain inflation and higher spending owing to strategic investments. In fact, these factors put pressure on its adjusted EBITDA during the first quarter. Management, in its last earnings call, highlighted that the company expects gross cost inflation in the middle-single-digit range across full cost basket for 2021.

▼ **Intense Competition:** Kraft Heinz operates in the highly competitive food industry. The company competes with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

▼ **Risks Related to International Exposure:** Kraft Heinz is exposed to the risks associated with operating internationally, including volatile currency movements, imposition of increased or new tariffs, quotas, trade barriers among other restrictions. Further, risks and costs associated with political and economic instability in the country of operation is a threat.

Last Earnings Report

Kraft Heinz Q1 Earnings Beat Estimates, Sales Up Y/Y

Kraft Heinz reported stellar first-quarter 2021 results, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year. Markedly, this manufacturer and marketer of food and beverage products registered strong net sales, favorable product mix and lower general corporate expenses. Also, sturdy performance across all business segments contributed to the company's upbeat results.

Let's Delve Deeper

Kraft Heinz posted adjusted earnings of 72 cents a share that handily beat Zacks Consensus Estimate of 60 cents. The quarterly earnings surged 24.1% from 58 cents reported in the year-ago period owing to increase in adjusted EBITDA, lower effective tax rate and reduced depreciation and amortization costs.

The company generated net sales of \$6,394 million that increased 3.9% year over year and came ahead of the Zacks Consensus Estimate of \$6,259.7 million. Net sales growth included a 1.4 percentage point favorable impact from currency.

Notably, organic net sales rose 2.5% despite an adverse impact from exiting the McCafé licensing agreement. We note that positive contributions from all reporting segments favorably impacted the metric.

The company stated that pricing was up 1.5 percentage points year over year, reflecting lower retail promotions and revenue management gains that more than offset unfavorable trade expense timing. Additionally, volume/mix improved 1.0 percentage points thanks to favorable changes in retail inventory levels, mainly in developed markets where retail consumption continued to remain solid, as well as sustained growth in emerging markets. However, this was partly offset by continued softness in foodservice, adverse impact from exiting the McCafé licensing agreement, and fall in retail takeaway when compared with the prior year period that gained from robust pandemic-induced demand.

Other Operating Highlights

We note that gross profit of \$2,201 million increased 18.5% year over year during the quarter under review.

Again, adjusted EBITDA jumped 11.6% to \$1,580 million, including a positive 1.2 percentage point impact from currency. Excluding the impact of currency, adjusted EBITDA grew on account of favorable pricing and product mix coupled with lower general corporate expenses. However, supply chain inflation and higher spending owing to strategic investments partly offset the same.

Segment Discussion

United States: Net sales of \$4,608 million increased 2.5% year over year. During the quarter, pricing moved up 1.0 percentage points, while volume/mix increased 1.5 percentage points.

International: Net sales of \$1,394 million were up 7.2% year over year. Markedly, pricing moved up 2.2 percentage points, while volume/mix increased 0.5 percentage points.

Canada: Net sales of \$392 million rose 8.8% year over year. Notably, pricing moved up 4.9 percentage points but volume/mix declined 2.4 percentage points.

Other Financial Aspects

Kraft Heinz ended the quarter with cash and cash equivalents of \$2,360 million, long-term debt of \$27,074 million and total shareholders' equity of \$50,288 million. Further, net cash provided by operating activities was \$810 million during the quarter. The company incurred capital expenditures of \$227 million during the reported quarter. Markedly, it generated free cash flow of \$583 million.

Outlook

Taking into account to-date performance, Kraft Heinz envisions a mid-single-digit percentage growth in both organic net sales and constant currency adjusted EBITDA, when compared with the 2019 period. Management highlighted that comparison to the 2019 period is more reasonable than the 2020 period that witnessed unprecedented pandemic-related demand.

However, when compared with the 2020 period, the outlook reflects a low-single-digit percentage decline in organic net sales and a mid-single-digit percentage fall in constant currency adjusted EBITDA.

Nonetheless, the company reiterated its expectations of delivering 2021 financial performance ahead of its strategic plan.

Quarter Ending	03/2021
Report Date	Apr 29, 2021
Sales Surprise	2.15%
EPS Surprise	20.00%
Quarterly EPS	0.72
Annual EPS (TTM)	3.02

Recent News

Kraft Heinz's Walmart and eko Partnership to Aid Growth – Jun 29, 2021

Kraft Heinz in partnership with Walmart and eko will launch 11 new choice-driven shoppable episodes on Walmart Cookshop — an innovative shoppable video hub for enthusiastic cooks. The episodes will be aimed at offering healthy and easy meal solutions for every season to make shopping for groceries fun and easy for consumers.

The episodes will feature a number of products and brands including Kool-Aid, Oscar Mayer, Philadelphia Cream Cheese, Kraft cheese as well as Heinz condiments. Per the partnership, episodes like “Tasty Toast, presented by Philadelphia Cream Cheese” and “Summer Refreshers, presented by Country Time and Kool-Aid” will be launched initially. During the end of 2021, a one of its kind Kraft Heinz “Sandwich Shop” will be introduced. Well, the Walmart Cookshop leads viewers to a way to directly buy items and groceries for pick-up or delivery. All said, management at Kraft Heinz believes that the aforementioned partnership will help the company offer impressive meal solutions from trusted brands to its customers.

Kraft Heinz to Buy Assan Foods, Expand Presence in Turkey – Jun 11, 2021

Kraft Heinz is focused on accelerating its international growth strategy based around Taste Elevation and foodservice platform. In this regard, the company signed an agreement to buy sauces-focused business — Assan Foods — from privately-held Turkish conglomerate, Kibar Holding. We note that the enterprise is valued at nearly \$100 million. Management expects to conclude the deal in the second half of 2021.

Assan Foods, which sells a variety of offerings including ketchup, pasta and meat sauces, tomato paste as well as mayonnaise under brands like Colorado, Kingtom and Oba, has local production units in Balikesir and Izmir. Moreover, Assan Foods exports its products to nearly 50 countries along with working in the domestic market. Well, Assan Foods has been a certified manufacturing partner for the company since 2019. This partnership has been aiding Kraft Heinz's foodservice and retail business in Europe, the Middle East and Africa. All said, management believes that Assan Foods' impressive innovations along with its solid distribution network in the booming foodservice channel is likely to help Kraft Heinz expand its brand presence in Turkey.

Kraft Heinz Sells Nuts Business to Hormel Foods – Jun 7, 2021

Kraft Heinz sold its nuts business to Hormel Foods for a cash price of \$3.35 billion. Management believes that the sale of the nuts portfolio is a step closer to achieving its objectives laid out in the transformation plan.

Valuation

Kraft Heinz shares are up 17.1% in the year-to-date period and 28.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7% while the Zacks Consumer Staples sector gained 6.1% in the year-to-date period. Over the past year, the Zacks sub-industry went up 22.2% while the sector gained 22.8%.

The S&P 500 index is up 15% in the year-to-date period and 39.8% in the past year.

The stock is currently trading at 15.41X forward 12-month earnings, which compares to 19.22X for the Zacks sub-industry, 20.45X for the Zacks sector and 21.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.56X and as low as 8.58X, with a 5-year median of 14.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 16.35X forward 12-month earnings.

The table below shows summary valuation data for KHC

Valuation Multiples - KHC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.41	19.22	20.45	21.85
	5-Year High	26.56	22.92	22.4	23.83
	5-Year Low	8.58	14.67	16.52	15.31
	5-Year Median	14.72	18.34	19.51	18.05
P/S F12M	Current	2.01	1.71	10.2	4.76
	5-Year High	4.41	2.02	11.95	4.76
	5-Year Low	1	1.35	8.58	3.21
	5-Year Median	2.2	1.66	10.31	3.72
EV/EBITDA F12M	Current	12.23	12.92	36.45	15.9
	5-Year High	17.21	13.77	38.68	16.53
	5-Year Low	9.11	10.5	26.62	10.79
	5-Year Median	12.33	12.7	34.99	13.6

As of 06/29/2021 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 18% (206 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
US Foods Holding Corp. (USFD)	Outperform	1
Aramark (ARMK)	Neutral	3
Associated British Foods PLC (ASBFY)	Neutral	3
Danone (DANOY)	Neutral	4
General Mills, Inc. (GIS)	Neutral	3
Mondelez International, Inc. (MDLZ)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3
United Natural Foods, Inc. (UNFI)	Neutral	3

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	KHC	X Industry	S&P 500	MDLZ	UNFI	USFD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	3	3	1
VGM Score	C	-	-	D	A	F
Market Cap	49.64 B	4.47 B	30.34 B	87.57 B	2.06 B	8.16 B
# of Analysts	8	3	12	11	4	3
Dividend Yield	3.94%	0.00%	1.34%	2.02%	0.00%	0.00%
Value Score	A	-	-	B	A	D
Cash/Price	0.05	0.05	0.06	0.02	0.02	0.11
EV/EBITDA	22.73	13.46	17.30	20.07	8.07	35.06
PEG F1	4.18	3.06	2.11	2.47	NA	NA
P/B	0.98	3.34	4.05	3.23	1.59	2.32
P/CF	11.32	13.07	17.44	18.18	2.30	16.70
P/E F1	15.35	21.21	21.19	21.36	10.49	22.83
P/S TTM	1.88	1.47	3.42	3.23	0.08	0.36
Earnings Yield	6.55%	4.11%	4.64%	4.68%	9.53%	4.38%
Debt/Equity	0.54	0.44	0.66	0.62	1.88	1.60
Cash Flow (\$/share)	3.59	2.52	6.86	3.43	15.91	2.20
Growth Score	D	-	-	D	A	F
Historical EPS Growth (3-5 Years)	-3.16%	2.14%	9.59%	8.45%	2.47%	-26.81%
Projected EPS Growth (F1/F0)	-7.77%	3.61%	21.89%	12.67%	28.40%	1,688.89%
Current Cash Flow Growth	4.94%	4.01%	1.02%	4.22%	31.69%	-45.52%
Historical Cash Flow Growth (3-5 Years)	10.20%	5.21%	7.34%	5.16%	32.71%	-2.54%
Current Ratio	1.74	1.74	1.38	0.61	1.58	1.59
Debt/Capital	34.93%	32.68%	41.51%	38.45%	65.29%	58.20%
Net Margin	2.05%	5.55%	12.06%	13.94%	0.59%	-0.52%
Return on Equity	7.43%	12.26%	16.59%	14.37%	18.27%	1.45%
Sales/Assets	0.27	0.96	0.51	0.41	3.55	1.77
Projected Sales Growth (F1/F0)	-3.98%	2.39%	9.56%	6.91%	6.12%	20.55%
Momentum Score	D	-	-	F	F	C
Daily Price Change	-0.73%	-0.58%	0.03%	-1.35%	-0.97%	-1.05%
1-Week Price Change	0.47%	0.95%	1.07%	1.67%	10.61%	5.67%
4-Week Price Change	-7.46%	-3.85%	2.14%	-1.56%	-6.20%	-7.92%
12-Week Price Change	-0.29%	-0.69%	5.35%	5.50%	5.65%	-4.99%
52-Week Price Change	27.25%	32.02%	38.43%	21.92%	101.15%	86.36%
20-Day Average Volume (Shares)	4,694,249	173,160	1,994,187	6,292,705	1,557,675	1,722,634
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.71%	0.00%
EPS F1 Estimate 4-Week Change	-0.23%	0.00%	0.00%	0.03%	-0.56%	0.86%
EPS F1 Estimate 12-Week Change	2.11%	0.11%	3.69%	1.08%	0.88%	7.09%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	-0.20%	:	0.00%	0.00%	:	-0.31%	-6.18%	0.00%
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	A
Growth Score	D
Momentum Score	D
VGM Score	C

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

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 forwardlooking 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 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 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.