

The Coca-Cola Company (KO)

\$53.85 (As of 03/29/21)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

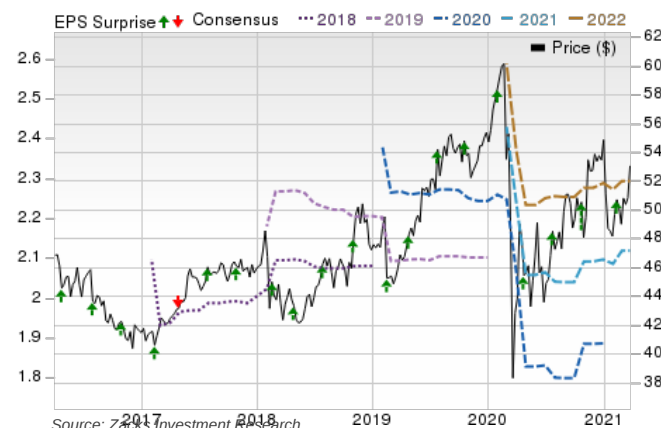
Growth: B

Momentum: B

Summary

Shares of Coca-Cola outpaced the industry in the past month, thanks to its robust earnings performance that continued in fourth-quarter 2020. This marked the fifth straight quarter of earnings beat. Gains from aggressive cost management aided margins. Although the top line lagged estimates and declined on a year-over-year basis, the company's top line reflected improved trends compared with prior quarters. Also, it witnessed sequential improvements in volume trends. The company is poised to gain from the streamlining of portfolio and accelerating investments to expand digital presence due to shift in consumer preference. However, continued pressures in the away-from-home channel, which account for nearly half of its revenues, affected revenues. Also, gains in the global value share in NARTD beverages was offset by negative channel mix.

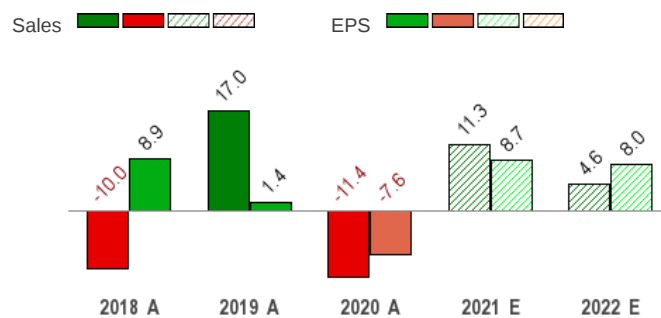
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$54.93 - \$41.80
20-Day Average Volume (Shares)	20,379,524
Market Cap	\$232.1 B
Year-To-Date Price Change	-1.8%
Beta	0.62
Dividend / Dividend Yield	\$1.68 / 3.1%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.6%
Last Sales Surprise	-1.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	04/19/2021
Earnings ESP	0.0%
P/E TTM	27.6
P/E F1	25.4
PEG F1	3.6
P/S TTM	7.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	9,226 E	9,962 E	10,188 E	9,269 E	38,416 E
2021	8,522 E	9,138 E	9,717 E	9,205 E	36,733 E
2020	8,601 A	7,150 A	8,652 A	8,611 A	33,014 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.53 E	\$0.60 E	\$0.65 E	\$0.50 E	\$2.29 E
2021	\$0.50 E	\$0.56 E	\$0.60 E	\$0.46 E	\$2.12 E
2020	\$0.51 A	\$0.42 A	\$0.55 A	\$0.47 A	\$1.95 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 03/29/2021. The report's text and the analyst-provided price target are as of 03/30/2021.

Overview

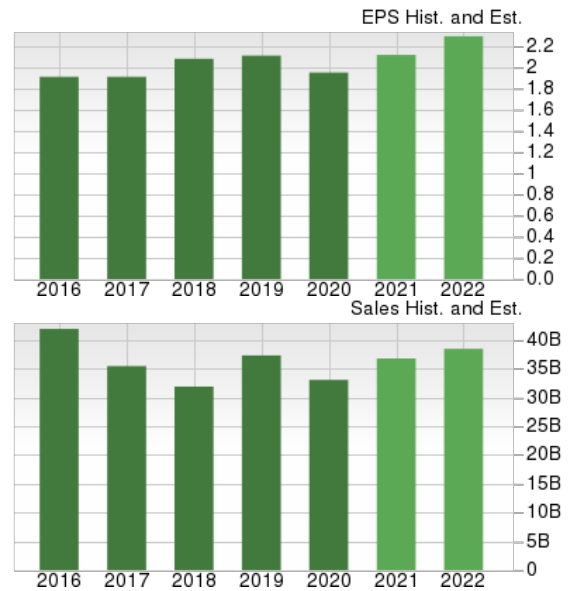
The Coca-Cola Company's strong brand equity, marketing, research and innovation help it to garner a market share of more than 40% in the non-alcoholic beverage industry. The company is putting its best foot forward to evolve its business model to become a total beverage company with something for everyone to drink.

The company has coped up with the industry-wide flattening of soda sales over the years by going on a buying spree and making investments in healthier alternatives like coffee, sparkling water and sports drinks. The roll out of Coca-Cola Energy, Coca-Cola Plus Coffee, Powerade Ultra and Powerade Power Water are some notable additions on these lines.

The Atlanta, GA-based global beverage giant's portfolio includes more than 4,700 beverage products (and more than 500 brands), spanning from sodas (or sparkling beverages) to energy drinks. In addition to its primary sparkling soft drinks (carbonated), the company sells a large range of still (non-carbonated) beverages including water, enhanced water, juices and juice drinks, sports drinks, ready-to-drink teas and coffees, and dairy and energy drinks.

Popular sparkling beverage brands include Coke, Diet Coke, Fanta and Sprite while still beverage brands include Minute Maid and Powerade. Most of the company's beverages are manufactured, sold and distributed by independent bottling partners. It sells products in more than 200 countries.

Coca-Cola currently reports operating results under the following segments — Europe, Middle East and Africa (17.3% of 2019 total revenue); Latin America (11%); North America (31.9%); Asia Pacific (12.7%); Global Ventures (6.9%); Bottling Investments (19.9%); and Corporate (0.3%). Intersegment eliminations were \$1,248 million in 2019. Intersegment revenues were \$624 million for Europe, Middle East & Africa, \$9 million for North America, \$604 million for Asia Pacific, \$2 million for Global Ventures and \$9 million for Bottling Investments.



Reasons To Buy:

- ▲ **Solid Earnings Surprise Trend:** Coca-Cola boasts a robust earnings trend, which continued in fourth-quarter 2020. Notably, the company's bottom line surpassed the Zacks Consensus Estimate for the fifth straight quarter in fourth-quarter 2020. Comparable currency-neutral earnings per share also improved 6% year over year. Coca-Cola has been benefiting from the effective execution of strategies to evolve as a consumer-centric total beverage company. Moreover, the company's fourth-quarter revenues reflected improved trends from the prior quarters. Also, two additional days in the quarter aided revenue growth. Shares of Coca-Cola gained 8% in the past month compared with the industry's growth of 7.4%.
- ▲ **Volume Trend Reflects Sequential Gain:** Although Coca-Cola's total unit case volume was down 3% in the fourth quarter, it reflected a sequential improvement in volume trends. Notably, unit cash volume in the reported quarter improved from 4% decline in the third quarter and 16% decline witnessed in the second quarter. Pressures in the away-from-home channels owing to the coronavirus outbreak, were partly offset by continued strength in at-home channels. Though the company witnessed strength in the emerging markets, developed markets remained under pressure. Category-wise, sparkling soft drinks' unit case volume edged down 1% (compared with a 1% decline in the prior quarter). The Coca-Cola trademark was up 1%, with Coca-Cola Zero Sugar improving 3%. Volume for juice, dairy and plant-based beverages declined 2% (compared with a 6% fall in the last reported quarter). Water, enhanced water and sports drinks fell 9% (compared with an 11% decline in the third quarter). Tea and coffee volume dropped 15% (compared with a 15% decline in the third quarter).
- ▲ **Favorable Guidance:** Though the uncertainties related to the coronavirus pandemic remain, Coca-Cola reinstated its guidance for 2021 based on greater visibility into future recovery driven by actions to mitigate the impacts of the pandemic. For 2021, it estimates organic net sales growth in high-single digits. Comparable net revenues are anticipated to be aided by a 2-3% currency tailwind, based on current rates and hedge positions. The company expects an underlying effective tax rate of 19.5% for 2021. Based on the above assumptions, it expects comparable EPS growth rate of high-single digits to low-double digits, whereas it reported \$1.95 in 2020. Comparable EPS guidance includes a favorable currency impact of 3-4%.
- ▲ **Effective Cost Management Cushion Margins:** Though Coca-Cola's comparable gross margin declined 290 basis points (bps) in the fourth quarter, we note that aggressive cost saving measures across the organization helped cushion operating margin. Effective cost-management initiatives across all operations offset the decline in top line and currency headwinds, leading to a 250-bps growth in comparable operating margin. This also reflected an improvement from comparable operating margin growth of 230 bps in the third quarter and a decline of 30 bps in the second quarter. In dollar terms, comparable operating income rose 4.3% to \$2,353 million, while comparable currency-neutral operating income improved 14% year over year.
- ▲ **Digital Efforts:** Driven by a shift in consumer behavior due to the coronavirus pandemic, Coca-Cola has been witnessing a splurge in e-commerce with the growth rate of the channel doubling in many countries. The company has been accelerating investments to expand presence in this channel compared with the pre-crisis levels. It has been digitizing the enterprise for several years but has accelerated the evolution in to an organization that efficiently executes marketing, commercial, sales and distribution, both offline and online. It is strengthening consumer connections and further piloting numerous different digital-enabled initiatives through fulfillment methods, be it B2B to home or B2C platforms in many countries, to capture online demand for at-home consumption. For example, it continues to add outlets and expand its myCoke B2B platform to new markets. Also, the online-to-offline (O2O) partnerships with multiple food aggregators ensures beverage availability and visibility. The company focus on accelerating expansion in digital channel is likely to be sustainable, positioning it for long term growth.
- ▲ **Financial Flexibility:** Even amid the coronavirus crisis, Coca-Cola remains financially sound to run its business and meet obligations. The company's cash, marketable securities and short-term investments at the end of 2020 declined 48.3% on a sequential basis to \$10,914 million. However, the company's cash position remains sufficient to fund its short-term obligations of about \$2,668 million as of Dec 31, 2020. Though its long-term debt increased 1.6% sequentially to \$40,125 million as of Dec 31, 2020, debt-to-capitalization ratio of 0.66 represents a sequential improvement from 0.70 as of Sep 30, 2020. Additionally, the company estimates free cash flow of at least \$8.5 billion in 2021, with cash flow of at least \$10 billion and capital expenditure of \$1.5 billion.
- ▲ **Sustainable Shareholder Returns:** Coca-Cola remains committed toward rewarding shareholders with dividends and share repurchases. Despite adjustments to its capital plan in the wake of the coronavirus crisis, the company does not intend to alter its approach toward paying dividends. In October, the company declared a quarterly dividend of 41 cents per share, payable Dec 15. Notably, Coca-Cola has a dividend yield of 3.28%, dividend payout ratio of 86.2% and free cash flow yield of 4.1%. With an annual free cash flow return on investment of 15.46%, ahead of the industry's 12.88%; the increased dividend is likely to be sustainable.

Further, share buybacks continue to be significant as the company repurchased shares worth of \$2.6 billion in 2014, \$2.3 billion in both 2015 and 2016, \$3.7 billion in 2017, \$1.9 billion in 2018, and \$1.1 billion in 2019. It currently has an outstanding authorization to repurchase 150 million shares. The company does not expect to repurchase shares in the near term.

Though the pandemic-related uncertainties remain, Coca-Cola reinstated guidance for 2021 based on greater visibility into future recovery driven by actions to mitigate the impacts of the pandemic.

Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Coca-Cola looks overvalued compared with the broader industry. The stock has a trailing 12-month P/E multiple of 27.62x, higher than the industry's P/E of 27.33x. The company's P/E ratio is above the median level of 25.26x and the high level of 28.35x scaled in the past year. Given the factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Dismal Q4 Sales:** Coca-Cola's revenues for fourth-quarter 2020 missed the Zacks Consensus Estimate and declined 5% year over year. During the quarter, concentrate sales remained even but price/mix was down 3%. Price/mix were impacted by adverse channel and package mix in key markets due to the coronavirus outbreak. Also, negative mix in the Global Ventures, Asia Pacific, and Europe, Middle East & Africa segments impacted price/mix. Concentrate sales were 3 points ahead of unit case volume, owing to two additional days in the quarter and cycling of Brexit-related inventory reduction in the prior year. Organic revenues were down 3% from the prior-year quarter. Notably, organic revenues fell 1% in Latin America, 5% in North America, 12% in the Asia Pacific, 13% in EMEA, 23% in Global Ventures segments and 10% in Bottling Investments.
- ▼ **Market Share Trends:** During the fourth quarter, Coca-Cola's global value share in total non-alcoholic ready-to-drink (NARTD) beverages was even. It benefited from underlying share gains in both at-home and away-from-home channels, offset by negative channel mix due to pressures in the away-from-home channel. Notably, the company has a majority share position in the away-from-home channel. Though the company expects to emerge stronger in both channels driven by its efforts to support customers and to ensure seamless execution from a supply chain perspective, headwinds in the away-from-home channel are expected to remain in the near term. Regional lockdowns due resurgence of COVID-19 in certain markets may impact market share growth, particularly in the away-from-home channel.
- ▼ **Currency Headwinds:** Coca-Cola's results for fourth-quarter 2020 continued to be hurt by adverse currency rates. Adverse currency translations impacted revenues and earnings by 2% and 9%, respectively, in the fourth quarter. Though the company anticipates currency tailwinds for the full-year 2021, it expects adverse currency impacts to persist in the first quarter. It expects minimal currency impacts on comparable net revenues in the first quarter of 2021, comparable earnings per share to include currency headwinds of about 2%.
- ▼ **Impacts of the Resurgence of Pandemic:** While Coca-Cola has been witnessing gradual recovery from the pandemic-led disruptions, resurgence of the virus has led to renewed lockdowns and restrictions in many parts of the world. The rise in restrictions have impacted recovery in many markets, which resulted in slight decline in volume trends in December, which has continued through February. Consequently, the company has witnessed a volume decline of mid-single-digits globally through early February 2021, reflecting continued elevated levels of sales in at-home channels that was more than offset by pressure in away-from-home channels. In general, the company sees business trends still linked to exposure to away-from-home channel as well as the level of lockdown.

The rise in restrictions due to resurgence of the virus have impacted recovery in many markets, which resulted in slight decline in volume trends in December, which has continued through February.

Last Earnings Report

Coca-Cola Q4 Earnings Surpass Estimates, Sales Miss

The Coca-Cola Company has delivered fourth-quarter 2020 results, wherein earnings beat the Zacks Consensus Estimate and rose year over year. However, the top line lagged estimates and declined on a year-over-year basis. The company witnessed sequential improvements in volume trends.

Comparable earnings of 47 cents per share beat the Zacks Consensus Estimate of 41 cents and improved 6% from the year-ago period. Currency translations negatively impacted earnings by 9%. Comparable currency-neutral earnings per share rose 14%.

Revenues of \$8,611 million missed the Zacks Consensus Estimate of \$8,699.3 million and declined 5% year over year. Organic revenues were down 3% from the prior-year quarter. The company's top line reflected improved trends compared with prior quarters. Also, two additional days in the quarter aided revenue growth.

During the quarter, concentrate sales remained even but price/mix was down 3%. Moreover, currency headwinds hurt the company's top line by 2%.

The company's global value share in total non-alcoholic ready-to-drink beverages was even. Coca-Cola benefited from underlying share gains in both at-home and away-from-home channels, offset by negative channel mix due to pressures in the away-from-home channel. Notably, the company has a majority share position in the away-from-home channel.

Volume and Pricing

Price/mix was down 3%, driven by adverse channel and package mix in key markets due to the coronavirus outbreak. Also, negative mix in the Global Ventures, Asia Pacific, and Europe, Middle East & Africa segments impacted price/mix. Concentrate sales were 3 points ahead of unit case volume, owing to two additional days in the quarter and cycling of Brexit-related inventory reduction in the prior year.

Coca-Cola's total unit case volume declined 3% in the fourth quarter on declines in all operating segments, owing to pressures in the away-from-home channels due to the coronavirus outbreak. This was partly offset by continued strength in at-home channels. Though the company witnessed strength in the emerging markets, developed markets remained under pressure.

Category Cluster Performance: Sparkling soft drinks' unit case volume edged down 1% (compared with a 1% decline in the prior quarter), driven by declines in the fountain business in North America and away-from-home channels in Western Europe, partly offset by growth in China, Brazil and Nigeria. The Coca-Cola trademark was up 1%, with Coca-Cola Zero Sugar improving 3%. Volume for juice, dairy and plant-based beverages declined 2% (compared with a 6% fall in the last reported quarter). The category was primarily impacted by a decline in Minute Maid in the fountain business, offset by strong Simply and fairlife performance in North America. Also, softness in the Asia Pacific and Europe, Middle East & Africa operating segments impacted the category.

Water, enhanced water and sports drinks fell 9% (compared with an 11% decline in the third quarter), mainly owing to broad-based declines across operating segments, particularly for the lower-margin water brands. Tea and coffee volume dropped 15% (compared with a 15% decline in the third quarter), owing to the pandemic-led disruptions at the Costa retail stores as well as headwinds in the dogadan tea business in Turkey.

Segmental Details

Revenues declined 4% for North America, 15% for Latin America, 11% for the Asia Pacific, 14% for Europe, Middle East & Africa ("EMEA"), 16% for Bottling Investments, and 22% for Global Ventures segments.

Organic revenues fell 1% in Latin America, 5% in North America, 12% in the Asia Pacific, 13% in EMEA, 23% in Global Ventures segments and 10% in Bottling Investments.

Margins

Comparable currency-neutral operating income improved 14% year over year, driven by effective cost-management initiatives across all operations, partly offset by top-line pressures and currency headwinds. Comparable operating margin expanded 250 basis points (bps) to 27.3%. In dollar terms, comparable operating income rose 4.3% to \$2,353 million.

Guidance

Though the uncertainties related to the coronavirus pandemic remain, the company provided its guidance for 2021. Coca-Cola estimates organic net sales growth in high-single digits in 2021. Comparable net revenues are anticipated to be aided by a 2-3% currency tailwind, based on current rates and hedge positions. The company expects an underlying effective tax rate of 19.5% for 2021.

Based on the above assumptions, it expects comparable EPS growth rate of high-single digits to low-double digits, whereas it reported \$1.95 in 2020. Comparable EPS guidance includes a favorable currency impact of 3-4%. Additionally, the company estimates free cash flow of at least \$8.5 billion in 2021, with cash flow of at least \$10 billion and capital expenditure of \$1.5 billion.

Quarter Ending	12/2020
Report Date	Feb 10, 2021
Sales Surprise	-1.02%
EPS Surprise	14.63%
Quarterly EPS	0.47
Annual EPS (TTM)	1.95

Valuation

Coca-Cola shares are down 1.8% in the year-to-date period and 21.7% for the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.5% but the Zacks Consumer Staples sector is up 1.8% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 24.8% and 29.8%, respectively.

The S&P 500 index is up 6% in the year-to-date period and 55.6% in the past year.

The stock is currently trading at 24.92X forward 12-month earnings, which compares to 23.1X for the Zacks sub-industry, 20.39X for the Zacks sector and 22.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.41X and as low as 17.03X, with a 5-year median of 22.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 26.38X forward 12-month earnings.

The table below shows summary valuation data for KO

Valuation Multiples - KO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.92	23.1	20.39	22.44
	5-Year High	26.41	24.26	22.4	23.83
	5-Year Low	17.03	18.48	16.52	15.3
	5-Year Median	22.93	21.83	19.53	17.9
P/S F12M	Current	6.25	4.52	10.8	4.59
	5-Year High	6.68	5.32	11.96	4.59
	5-Year Low	4.18	3.9	8.6	3.21
	5-Year Median	5.89	4.6	10.47	3.69
EV/EBITDA TTM	Current	23.31	22.09	44.16	17.68
	5-Year High	25.25	22.52	46.57	17.72
	5-Year Low	12.05	12.24	28.34	9.63
	5-Year Median	16.91	18.22	40.18	13.35

As of 03/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
AnheuserBusch InBev SANV (BUD)	Neutral	3
Keurig Dr Pepper, Inc (KDP)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
Mondelez International, Inc. (MDLZ)	Neutral	3
Monster Beverage Corporation (MNST)	Neutral	3
PepsiCo, Inc. (PEP)	Neutral	3
Nestle SA (NSRGY)	Underperform	5
Unilever PLC (UL)	Underperform	4

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

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	KO	X Industry	S&P 500	KDP	MNST	PEP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	D	B
Market Cap	232.06 B	218.02 M	29.36 B	49.94 B	48.55 B	199.84 B
# of Analysts	8	1	13	8	8	9
Dividend Yield	3.12%	0.00%	1.34%	1.69%	0.00%	2.82%
Value Score	C	-	-	C	D	C
Cash/Price	0.05	0.05	0.06	0.01	0.04	0.05
EV/EBITDA	20.54	7.01	16.54	20.21	27.55	18.10
PEG F1	3.52	2.87	2.39	2.87	2.57	3.45
P/B	10.87	6.09	3.96	2.10	9.40	14.77
P/CF	23.21	13.67	16.53	18.91	36.59	19.55
P/E F1	24.99	23.06	21.88	22.15	34.20	23.96
P/S TTM	7.03	2.75	3.37	4.30	10.56	2.84
Earnings Yield	3.94%	4.05%	4.51%	4.51%	2.93%	4.17%
Debt/Equity	1.89	0.41	0.66	0.47	0.00	2.98
Cash Flow (\$/share)	2.32	1.17	6.78	1.88	2.51	7.41
Growth Score	B	-	-	C	C	B
Historical EPS Growth (3-5 Years)	1.49%	7.94%	9.36%	-30.35%	17.94%	4.22%
Projected EPS Growth (F1/F0)	8.53%	16.53%	15.07%	14.46%	13.40%	9.48%
Current Cash Flow Growth	-4.76%	10.73%	0.44%	10.73%	13.09%	0.28%
Historical Cash Flow Growth (3-5 Years)	-1.52%	15.00%	7.37%	23.05%	16.95%	2.15%
Current Ratio	1.32	1.36	1.39	0.31	4.19	0.98
Debt/Capital	65.34%	32.39%	41.42%	31.86%	0.00%	74.87%
Net Margin	23.47%	3.44%	10.59%	11.40%	30.65%	10.12%
Return on Equity	41.85%	8.55%	14.86%	8.55%	27.84%	57.70%
Sales/Assets	0.35	0.78	0.50	0.24	0.84	0.78
Projected Sales Growth (F1/F0)	11.26%	5.79%	7.28%	3.93%	14.29%	6.90%
Momentum Score	B	-	-	D	C	D
Daily Price Change	1.53%	0.52%	-0.42%	0.71%	0.29%	1.48%
1-Week Price Change	4.39%	-0.46%	2.12%	3.22%	4.24%	6.10%
4-Week Price Change	7.92%	-0.85%	3.83%	14.89%	4.99%	10.86%
12-Week Price Change	2.07%	8.96%	11.63%	12.35%	1.46%	0.37%
52-Week Price Change	19.67%	51.79%	59.04%	43.22%	58.48%	15.40%
20-Day Average Volume (Shares)	20,379,524	220,199	2,357,830	7,261,468	2,222,683	7,290,751
EPS F1 Estimate 1-Week Change	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.04%	0.02%	0.00%	0.16%	0.66%	0.00%
EPS F1 Estimate 12-Week Change	1.05%	1.08%	2.19%	0.55%	2.53%	1.10%
EPS Q1 Estimate Monthly Change	0.00%	-0.09%	0.00%	-0.92%	-0.18%	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	C
Growth Score	B
Momentum Score	B
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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.