

Lockheed Martin(LMT)

\$367.14 (As of 10/21/20)

Price Target (6-12 Months): **\$389.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Lockheed Martin ended third-quarter 2020 on an impressive note, with both revenues and earnings surpassing the respective Zacks Consensus Estimate. The company enjoys strong demand for its high-end military equipment in domestic and international markets, being the world's largest defense contractor. Expansionary budgetary provisions made by the U.S. administration will immensely boost this defense prime's business. It continues to be a strong cash generator. In the past year, Lockheed Martin has outperformed the industry. However, forced cost reduction initiatives for F-35 program might hamper its operating results. America and Turkey's tiff on the latter accepting Russian products may hurt Lockheed's component supply from Turkey. It is facing performance issues in relation to some of its products, which in turn may hurt it results.

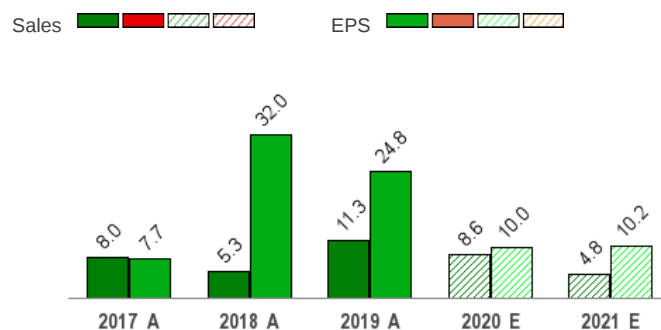
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$442.53 - \$266.11
20-Day Average Volume (Shares)	1,099,567
Market Cap	\$102.6 B
Year-To-Date Price Change	-5.7%
Beta	0.95
Dividend / Dividend Yield	\$10.40 / 2.6%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 16% (214 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.8%
EPS F1 Estimate 4-Week Change	0.8%
Expected Report Date	01/26/2021
Earnings ESP	1.3%
P/E TTM	15.5
P/E F1	15.2
PEG F1	2.1
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,349 E	16,708 E	16,991 E	17,432 E	68,082 E
2020	15,651 A	16,220 A	16,495 A	16,663 E	64,978 E
2019	14,336 A	14,427 A	15,171 A	15,878 A	59,812 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.41 E	\$6.52 E	\$6.83 E	\$6.89 E	\$26.61 E
2020	\$6.08 A	\$6.13 A	\$6.25 A	\$6.25 E	\$24.15 E
2019	\$5.99 A	\$5.00 A	\$5.66 A	\$5.29 A	\$21.95 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 10/21/2020. The reports text is as of 10/22/2020.

Overview

Lockheed Martin Corporation is the largest defense contractor in the world. Its main areas of focus are in defense, space, intelligence, homeland security and information technology including cyber security. In 2019, 71% of the company's net sales were from the U.S. Government (including 61% from the Department of Defense (DoD), 28% from international customers and 1% from U.S. commercial and other customers. Lockheed Martin currently operates through four businesses — Aeronautics, Missiles and Fire Control (MFC), Rotary and Missions Systems (RMS) and Space Systems.

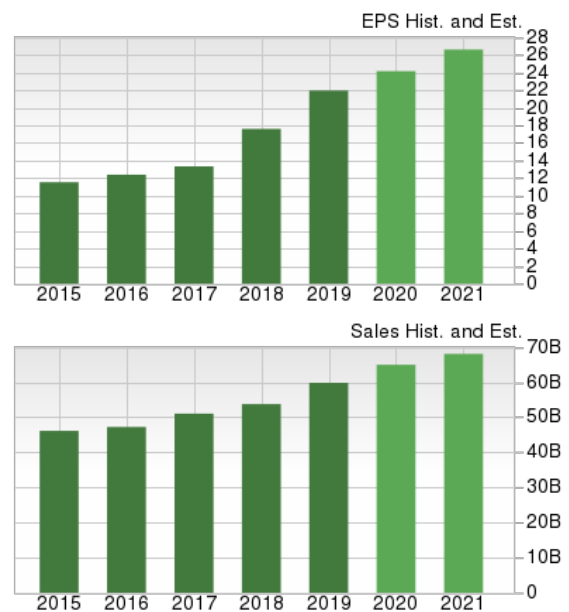
The company's **Aeronautics** is engaged in the design, research and development, systems integration, production and support of advanced military aircraft and related technologies. This segment includes programs like F-35 Lightning II Joint Strike Fighter; C-130 Hercules; F-16 Fighting Falcon; F-22 Raptor; and C-5M Super Galaxy. It generated sales of \$23.69 billion in 2019, accounting for 39.6% of the total sales.

In Lockheed Martin's **MFC** business, headquartered in Dallas, some of its high-profile programs include the Terminal High Altitude Area Defense System, Joint Light Tactical Vehicle, PAC-3 Missiles, as well as logistics and other technical services from GTL. It generated sales of \$10.13 billion in 2019, constituting 16.9% of total sales.

In its **RMS** business, headquartered in Washington, DC, some of its high-profile programs include the Aegis Combat System, Littoral Combat Ship, MH-60 helicopter avionics, as well as military and commercial orders. It generated sales of \$15.12 billion in 2019, comprising 25.3% of the total sales.

The company's **Space Systems** is engaged in the design, development, engineering, and production of commercial and military space systems. It generated sales of \$10.86 billion in 2019 or 18.2% of the total sales.

Lockheed Martin ended the second quarter (on June 28, 2020) with \$150.3 billion in backlog.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Solid Order Growth:** Keeping up with its trend of securing big contracts from the Pentagon, Lockheed Martin was successful in clinching several notable deals during the third quarter. These include a \$911.8-million modification contract for providing element development and support services related to Terminal High Altitude Area Defense (THAAD) missile system. Moreover, its Aeronautics business segment secured a modification contract worth \$709.8 million for procuring economic order quantities of material to support low rate initial production of F-35 aircraft. Further, its MFC business segment secured a \$183.2 million modification contract for High Mobility Artillery Rocket Systems (HIMARS) M142 launchers. Such significant contract wins bolster revenue long-term growth prospects. Consequently, the company's total backlog of \$150.4 billion during the third quarter reached a record level for the ninth consecutive quarter, registering growth of 4.4% from 2019-end level. Such consistent level of contract flows and subsequent backlog levels must have steadily boosted investors' confidence in the stock. Over the past year, shares of Lockheed Martin have lost 1.6% compared with the industry's decline of 32.8%.

Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT program

▲ **F-35 - A Prime Program:** Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT programs. Notably, the F-35 program continues to be a key growth driver for the company, having added 411 production aircraft in backlog as of Jun 28, 2020. The company's Aeronautics unit witnessed 8% year-over-year top-line growth in the third quarter, with the F-35 program being a prime contributor and 31 F-35 jets being delivered during the quarter. Looking ahead, Lockheed has raised its 2020 sales expectation for the Aeronautics business segment from the prior projection, to which we believe increased volume for the F-35 program will be a major contributor.

With the company consistently increasing production of F-35 jets, delivery figures and contract acquisitions are expected to rise in the coming days, enabling Lockheed Martin to meet its target of achieving full-rate production for F-35 over the next few years. Moreover, production of the F-35 jets is expected to continue for many years ahead, given the U.S. government's current inventory target of 2,456 aircraft for the Air Force, Marine Corps and Navy. Consequently, we may expect Lockheed Martin to witness more order inflows for F-35, in coming days, which in turn should significantly bolster this defense contractor's top line.

▲ **Impressive Budgetary Attributes:** As part of the fiscal 2021 proposed defense budget, \$740.5 billion is being kept as funding for the Pentagon, reflecting 3% growth from the fiscal 2020 budget. This increased spending provision highlights the U.S. government's decision to spend more on defense primes like Lockheed Martin. Notably, the budget has allotted \$11.4 billion for the procurement of 79 F-35 Joint Strike Fighters. The financial plan also includes an investment of \$1.1 billion for the procurement of AEGIS Ballistic Missile Defense system and \$0.92 billion for THAAD missiles. All these expansionary budgetary provisions will immensely boost this defense prime's business.

▲ **International Foray:** Apart from enjoying a strong forte in the domestic front, Lockheed Martin's products are also well acclaimed in the international market. In recent times, the company is witnessing increased demand for its THAAD missiles from the Kingdom of Saudi Arabia (KSA). Moreover, PAC-3 programs are undergoing production and sustainment activities in the KSA, UAE, Qatar, the Republic of Korea, Japan and Taiwan. Moreover, for its F-35 program, Poland has committed to receive 32 such jets, while the company is witnessing increased growth opportunities for this fighter jet in Finland, Switzerland and Spain. During the third quarter, the company won a solid \$62-billion foreign military sales (FMS) contract for the production of new F-16 aircraft, with the initial delivery order for 90 F-16 aircraft to be supplied to Taiwan and Morocco. Such developments should boost the company's international sales in the days ahead and aid long-term growth, with more and more nations strengthening their defense arsenals across the world.

▲ **Stable Liquidity Position:** Lockheed Martin's cash and cash equivalent at the end of third-quarter 2020 was \$3.59 billion compared with \$2.86 billion at June 2020 end. On the other hand, the company's long-term debt as of Sep 27, 2020 was \$11.68 billion, which declined sequentially. Although the long-term debt level lies much above the company's cash reserve, its current debt worth \$1 billion as of Sep 27, 2020 is much lower than the cash reserve. This reflects the company's capability to duly meet its obligations over the short run.

Moreover, the company's current ratio as of Sep 27, 2020, was 1.34, which being more than 1, indicates that this defense major has sufficient capital on hand to meet its short-term obligations. It also improved sequentially. Further, Lockheed's times interest earned ratio improved sequentially from 13.3 to 14.2 at the end of the third quarter. All these favorable ratio levels make us optimistic about the company's ability to meet debt obligations in the near future. Such stable liquidity position enables Lockheed Martin to take important cash deployment decisions. During the third quarter, the company bought back 0.2 million shares for \$85 million and paid out dividends worth \$672 million to its shareholders, an increase of 8.2% year over year. Lockheed Martin also increased its share repurchase authority by \$1.3 billion.

Reasons To Sell:

- ▼ **Tiff with Turkey:** On July 17, 2019, the U.S. Government suspended Turkey's participation in the F-35 program and initiated the process to formally remove Turkey from the program, since Turkey accepted delivery of the Russian S-400 air and missile defense system. As of Mar 31, 2020, although the U.S. administration has not imposed sanctions on Turkish entities involved in the S-400 procurement, there remains a chance of new sanction provisions targeted at Turkey, if the "Promoting American National Security and Preventing the Resurgence of ISIS Act of 2019" gets approved by Congress in 2020. To this end, if this bill gets enacted and a step is taken against Turkey, Lockheed Martin's programs involving Turkey will get affected.

F-35 program's cost issues, issues with Turkey and COVID-19 impacts might hurt the company's growth trajectory.

Notably, Turkish suppliers also produce component parts for the F-35 program, many of which are single-sourced. Therefore, in case of any sanction imposed on Turkey, Lockheed Martin's operating results, financial position or cash flows might get adversely impacted.

- ▼ **Cost Issues of F-35:** The F-35 program or the Joint Strike Fighter Program was conceived and developed by the U.S. and its allies to replace the ageing F-16s and other older fighter jets in their fleet. It is the largest as well as the costliest U.S. weapons system. As this program represents around 27% of the company's total sales, which are expected to go up in days ahead, any decision to cut spending or reduce planned orders could have an adverse impact on its financial results.

In fact, President Trump had earlier expressed his concerns for this program, claiming it to be an 'overly expensive' one. To this end, the company has already reduced the cost structure for this jet and now plans to reduce to \$80 million or less per plane by 2020. However, the F-35A, the most common version of the aircraft, is expected to cost \$82.4 million per unit in 2020, per a report by Reuters. Moreover, according to the Defense Department's latest annual program overview, the company must find ways to reduce the Pentagon's current \$1.1 trillion estimate to own and operate the F-35 jets. Such forced cost reduction initiatives might hamper the operating results of the company.

- ▼ **COVID-19 Impacts:** Although the pandemic did not have a material impact on Lockheed Martin's operating results or business in the third quarter of 2020, its ongoing and prolonged impacts may be a cause of concern and might dent the company's performance in the coming days. Notably, the company has been experiencing impacts in each of its business areas related to COVID-19, primarily increased coronavirus-related costs, delays in supplier deliveries, impacts of travel restrictions and the impacts of remote work and adjusted work schedules, to some extent. Moreover, it had to adjust its operations in response to the pandemic, including, a reduction in the F-35 production rate primarily owing to supplier delays and a temporary schedule adjustment for the F-35 production workforce in Fort Worth, TX. Given the ongoing coronavirus impact, additional production delays, facility closures, work slowdowns, or temporary stoppages might occur, thereby affecting Lockheed.

In many cases, the facilities are understaffed as a result of COVID-19, which could have an indeterminate longer-term impact on Lockheed's results. Flight test operations and training have also been impacted by travel restrictions as a result of COVID-19, which has delayed some deliveries to customers. Further, other milestones of affected programs could face the impact of the extended period of global supply-chain disruption. Since the pandemic is unlikely to die out anytime soon, the growth of the stock could be hampered.

- ▼ **Program Issues:** Lockheed's EADGE-T program, used to design, integrate, and install an air missile defense command, control, communications, computers-intelligence (C4I) system, has been experiencing performance issues. As of June 2020 end, cumulative losses related to this remained at approximately \$260 million. The company has also been experiencing performance issues related to the development and integration of a modernized LM 2100 satellite platform. Cumulative losses remained at approximately \$410 million for this program, at June 2020 end. If no positive developments are made on these loss-incurring programs, it might weigh on the company's operating results.

Last Earnings Report

Lockheed Martin Beats on Q3 Earnings, Ups 2020 EPS View

Lockheed Martin reported third-quarter 2020 earnings from continuing operations of \$6.25 per share, which surpassed the Zacks Consensus Estimate of \$6.07 by 3%. The bottom line also improved 10.4% from the year-ago quarter's \$5.66.

This year-over-year upside can be attributed to higher sales as well as operating profit.

Operational Highlights

In the reported quarter, net sales amounted to \$16,495 million, which outshined the Zacks Consensus Estimate of \$16,206 million by 1.8%. The reported figure also increased 8.7% from \$15,171 million a year ago, driven by sales growth in all its segments.

Backlog

Lockheed Martin ended the third quarter (on Sep 27, 2020) with \$150.4 billion in backlog, up 4.4% from \$144 billion at the end of 2019. Of this, the Aeronautics segment accounted for \$57.8 billion, while Rotary and Mission Systems contributed \$36.2 billion. Space Systems contributed \$26.3 billion while \$36.2 billion came from the Missiles and Fire Control segment.

Segmental Performance

Aeronautics: Sales increased 8% year over year to \$6.68 billion, primarily driven by higher net sales from the F-35 programs. Also, higher volume of classified development contracts contributed to sales growth at this unit.

The segment's operating profit increased 6% year over year to \$705 million, whereas operating margin contracted 20 basis points (bps) to 10.6%.

Missiles and Fire Control: Quarterly sales improved 14% year over year to \$2.97 billion owing to higher sales from tactical and strike missile programs as well as integrated air and missile defense programs.

The segment's operating profit increased 16% year over year to \$405 million and operating margin improved 20 bps to 13.6%.

Rotary and Mission Systems: Sales of \$4 billion improved 8% from the prior-year quarter on account of higher sales in Sikorsky helicopter programs, for various training and logistics solutions (TLS) programs as well as integrated warfare systems and sensors (IWSS) programs.

The segment's operating profit improved 18% year over year to \$404 million. Operating margin expanded 90 bps to 10.1%.

Space Systems: Sales rose 6% year over year to about \$2.85 billion in the third quarter. The uptick was driven by government satellite programs as well as strategic and missile defense programs.

The segment's operating profit declined 20% to \$248 million. Operating margin contracted 300 bps to 8.7% in the reported quarter.

Financial Condition

Lockheed Martin's cash and cash equivalents totaled \$3.59 billion as of Sep 27, 2020, compared with \$1.51 billion at the end of 2019. Long-term debt was \$11.68 billion, higher than the prior-year-end level of \$11.40 billion.

Cash from operations at the end of third-quarter 2020 amounted to \$6.38 billion compared with \$5.82 billion a year ago.

During the reported quarter, the company repurchased 0.2 million shares for \$85 million compared with the buyback of 0.6 million shares for \$210 million in the year-ago quarter. The \$85 million spend in the third quarter included \$26 million for shares repurchased in the second quarter of 2020.

Lockheed Martin paid out dividends worth \$672 million to its shareholders in the third quarter compared with the year-ago quarter's figure of \$621 million. Moreover, the company increased its quarterly dividend by 20 cents per share to \$2.60 per share, beginning with the dividend payment in the fourth quarter of 2020.

Lockheed Martin also increased its share repurchase authority by \$1.3 billion, with \$3 billion in total remaining authorization for future repurchases of common stock under the program as of Sep 27, 2020.

Guidance

For 2020, Lockheed Martin has partially raised its financial guidance. The company currently expects to generate revenues of \$65.25 billion compared with the range of \$63.50-\$65 billion projected earlier. The Zacks Consensus Estimate for full-year revenues, pegged at \$64.76 billion, lies below the updated guidance.

Earnings per share are currently anticipated to be \$24.45, higher than the earlier range of \$23.75-\$24.05 for 2020. The Zacks Consensus Estimate for the company's full-year earnings, pegged at \$24.13, is lower than the guidance range.

However, the company continues to expect its full-year cash generation from operations to be greater than or equal to \$8 billion.

Quarter Ending	09/2020
Report Date	Oct 20, 2020
Sales Surprise	1.78%
EPS Surprise	2.97%
Quarterly EPS	6.25
Annual EPS (TTM)	23.75

Recent News

On **October 02, 2020**, Lockheed Martin's Rotary and Mission Systems (RMS) business unit won a \$35.6-million hybrid contract for supporting the Aegis weapon system — J7 baseline — for Japan's maritime Self-Defense Force (JMSDF). The contract has been awarded by the Missile Defense Agency, Dahlgren, VA.

Per the contract terms, Lockheed Martin's RMS unit will perform Aegis FMS Baseline J7.B development and SPY-7(V) 1 radar production, integration and test planning support for the JMSDF. Work related to the deal will be performed in Moorestown, NJ, and is expected to conclude by Jul 31, 2021.

On **September 28, 2020**, Lockheed Martin's Aeronautics business segment secured a modification contract for procuring economic order quantities of material to support low rate initial production of F-35 aircraft. The deal has been awarded by the Naval Air Systems Command, Patuxent River, MD.

Valued at \$709.8 million, the contract is expected to be completed by May 2026. The majority of the work related to the deal will be carried out in Fort Worth, TX.

On **August 30, 2020**, Lockheed Martin Corp.'s Missile and Fire Control (MFC) business segment recently secured a \$183.2 million modification contract for High Mobility Artillery Rocket Systems (HIMARS) M142 launchers. The contract was awarded by the U.S. Army Contracting Command, Redstone Arsenal, AL.

Work related to the deal will be performed in Camden, AZ; Boca Raton and Grand Prairie, TX. The contract is scheduled to be completed by Dec 20, 2023.

On **August 27, 2020**, Lockheed Martin secured a \$911.8-million modification contract for providing element development and support services related to Terminal High Altitude Area Defense (THAAD) missile system. The contract has been awarded by the Missile Defense Agency, Huntsville, AL.

Valuation

Lockheed Martin's shares are down 5.8% in the year-to-date period and 1.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 27.4% and 35.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 32.8% while the sector is down 36.9%.

The S&P 500 index is up 6.8% in the year-to-date period and 14.7% in the past year.

The stock is currently trading at 13.9X of forward 12-month earnings, which compares to 18.9X for the Zacks sub-industry, 19.2X for the Zacks sector and 22.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.4X and as low as 11.2X, with a 5-year median of 18.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$389 price target reflects 14.8X forward 12-month earnings.

The table below shows summary valuation data for LMT

Valuation Multiples - LMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.92	18.55	19.22	22.17
	5-Year High	25.36	22.54	20.96	23.47
	5-Year Low	11.22	14.52	14.17	15.27
	5-Year Median	18.05	17.86	17.54	17.68
P/S F12M	Current	1.52	1.2	1.6	4.11
	5-Year High	2.01	1.64	1.69	4.31
	5-Year Low	1.21	0.95	0.93	3.18
	5-Year Median	1.61	1.28	1.24	3.67
EV/EBITDA TTM	Current	11.53	29.99	15.71	15.06
	5-Year High	15.29	32.29	16.69	15.68
	5-Year Low	7.79	8.46	7.61	9.55
	5-Year Median	12.2	11.86	10.74	13.11

As of 10/21/2020 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 16% (214 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Airbus Group (EADSY)	Neutral	NA
General Dynamics Corporation (GD)	Neutral	4
Huntington Ingalls Industries, Inc. (HII)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	2
Northrop Grumman Corporation (NOC)	Neutral	3
Safran SA (SAFRY)	Neutral	3
Textron Inc. (TXT)	Neutral	4
The Boeing Company (BA)	Underperform	4

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

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	LMT	X Industry	S&P 500	EADSY	GD	NOC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-		4	3
VGM Score	A	-	-	-	A	A
Market Cap	102.63 B	10.92 B	23.50 B	59.24 B	39.20 B	51.41 B
# of Analysts	8	5.5	14	0	8	8
Dividend Yield	2.61%	0.01%	1.61%	0.00%	3.22%	1.88%
Value Score	B	-	-	-	B	B
Cash/Price	0.03	0.09	0.07	0.26	0.06	0.08
EV/EBITDA	12.27	12.27	13.40	13.92	8.63	15.02
PEG F1	2.14	2.19	2.75	NA	2.38	NA
P/B	20.58	2.97	3.45	40.42	2.82	5.29
P/CF	13.96	9.84	13.17	8.11	9.17	11.18
P/E F1	15.20	15.03	22.05	NA	12.37	13.73
P/S TTM	1.60	1.02	2.68	0.91	1.02	1.48
Earnings Yield	6.58%	5.39%	4.40%	NA%	8.08%	7.28%
Debt/Equity	2.34	0.72	0.70	15.95	0.75	1.47
Cash Flow (\$/share)	26.30	2.73	6.93	2.33	14.89	27.58
Growth Score	A	-	-	NA	B	A
Historical EPS Growth (3-5 Years)	18.30%	14.85%	10.39%	9.21%	6.15%	23.60%
Projected EPS Growth (F1/F0)	10.04%	-1.80%	-2.30%	NA	-7.85%	5.89%
Current Cash Flow Growth	18.08%	11.64%	5.49%	11.92%	3.16%	2.21%
Historical Cash Flow Growth (3-5 Years)	9.70%	7.38%	8.50%	5.74%	6.36%	14.43%
Current Ratio	1.33	1.32	1.37	1.03	1.27	1.35
Debt/Capital	70.07%	42.98%	42.41%	94.10%	42.98%	59.48%
Net Margin	10.18%	4.38%	10.35%	-7.63%	8.47%	6.91%
Return on Equity	173.43%	10.92%	14.78%	37.65%	24.10%	40.24%
Sales/Assets	1.30	0.79	0.51	0.51	0.76	0.82
Projected Sales Growth (F1/F0)	8.62%	0.00%	-0.53%	-41.98%	-2.41%	4.91%
Momentum Score	A	-	-	-	B	F
Daily Price Change	-1.36%	-1.35%	-0.36%	-4.60%	-1.34%	-0.22%
1-Week Price Change	0.15%	-0.80%	0.02%	-4.74%	-0.99%	0.30%
4-Week Price Change	-4.20%	0.04%	6.76%	6.27%	0.07%	-6.00%
12-Week Price Change	-5.21%	-6.63%	4.10%	3.28%	-8.59%	-2.19%
52-Week Price Change	-1.59%	-18.27%	1.99%	-43.62%	-21.29%	-12.69%
20-Day Average Volume (Shares)	1,099,567	526,265	1,882,561	286,118	1,246,606	930,890
EPS F1 Estimate 1-Week Change	0.82%	0.00%	0.00%	NA	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.82%	0.00%	0.14%	NA	0.00%	0.00%
EPS F1 Estimate 12-Week Change	0.83%	-0.43%	3.22%	NA	-0.86%	1.54%
EPS Q1 Estimate Monthly Change	0.63%	0.00%	0.00%	NA	0.33%	-0.23%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

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

Disclosures

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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.