

## MetLife, Inc. (MET)

**\$57.43** (As of 02/23/21)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: F

### Summary

MetLife's stock has outperformed the industry in six months' time. The company has been performing well on prudent underwriting and expense management. Several accretive acquisitions led to business diversification and inorganic growth. Business streamlining over the years via divestitures have aligned the company with high-growth operations. The company undertook strategies to trim costs, which should aid margins. Its solvency position looks strong, which will help it tide over the tough operating environment. Its solid free cash flow generation abilities and effective capital deployment measures are other positives. However, exposure to catastrophe loss is a concern. Also, its net investment income might weaken due to lower interest rates, which might weigh on investment yields.

### Price, Consensus & Surprise



### Data Overview

|                                |                         |
|--------------------------------|-------------------------|
| 52-Week High-Low               | \$57.95 - \$22.85       |
| 20-Day Average Volume (Shares) | 5,498,703               |
| Market Cap                     | \$50.5 B                |
| Year-To-Date Price Change      | 19.4%                   |
| Beta                           | 1.34                    |
| Dividend / Dividend Yield      | \$1.84 / 3.2%           |
| Industry                       | Insurance - Multi line  |
| Zacks Industry Rank            | Top 38% (96 out of 253) |

### Sales and EPS Growth Rates (Y/Y %)



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 32.7%      |
| Last Sales Surprise           | 29.1%      |
| EPS F1 Estimate 4-Week Change | -0.4%      |
| Expected Report Date          | 05/05/2021 |
| Earnings ESP                  | 0.0%       |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | 16,904 E | 16,661 E | 16,975 E | 17,369 E | 66,929 E |
| 2021 | 16,418 E | 16,027 E | 16,328 E | 16,704 E | 65,036 E |
| 2020 | 15,537 A | 13,845 A | 16,508 A | 20,575 A | 66,465 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.72 E | \$1.72 E | \$1.80 E | \$1.81 E | \$7.05 E |
| 2021 | \$1.49 E | \$1.51 E | \$1.61 E | \$1.73 E | \$6.35 E |
| 2020 | \$1.58 A | \$0.83 A | \$1.73 A | \$2.03 A | \$6.16 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 02/23/2021. The report's text and the analyst-provided price target are as of 02/23/2021.

## Overview

MetLife, Inc. is an insurance-based global financial services company providing protection and investment products to a range of individual and institutional customers. In addition to offering individual insurance, annuity, and investment products, the company provides group insurance, retirement and savings products, and services.

MetLife is organized into five segments: U.S.; Asia; Latin America; Europe, the Middle East and Africa ("EMEA"); and MetLife Holdings.

On Aug 4, 2017, MetLife, completed the spin-off of Brighthouse Financial, Inc. and its subsidiaries ("Brighthouse") through a distribution of 96,776,670 shares of Brighthouse Financial, Inc. common stock to the MetLife, Inc. common shareholders.

### Segments

The U.S. segment (51% of revenues in 2020) offers a broad range of protection products and services aimed at serving the financial needs of customers throughout their lives. The U.S. segment is organized into three businesses: Group Benefits, Retirement and Income Solutions, and Property & Casualty. The major products offered are term life insurance, variable life insurance, universal life insurance, dental insurance and accident & health insurance.

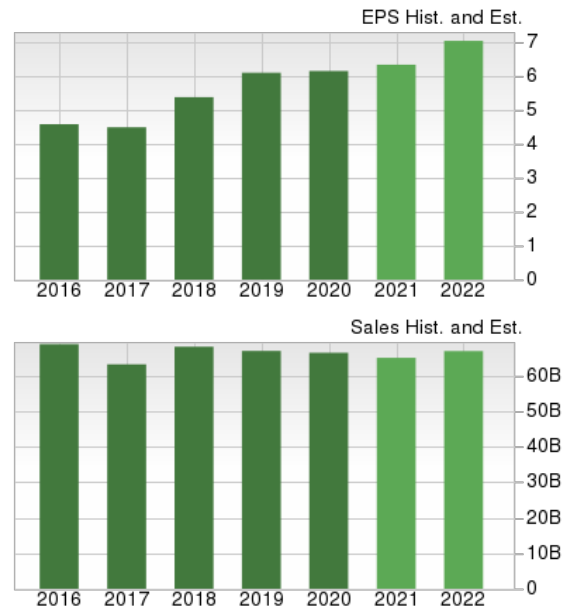
The Asia segment (18%) offers a broad range of products to individuals and corporations, as well as other institutions and their respective employees, which include whole life, term life, variable life, universal life, accident & health insurance, fixed and variable annuities, credit insurance and endowment products.

The Latin America (8%) segment offers products such as life insurance, accident & health insurance, group medical, dental, credit insurance, endowment, and retirement & savings products.

The EMEA segment (5%) has large operations in the Gulf region, Poland, United Kingdom and Turkey and offers a broad range of products including life insurance, accident & health insurance, credit insurance, annuities, endowment, and retirement & savings products.

The MetLife Holdings (18%) segment consists of operations relating to products and businesses no longer actively marketed by the company in the United States.

The company carries a rating of A++ from A.M. Best, AAA from Fitch, Aaa from Moody's and AAA S&P.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Business Streamlining:** The company is busy streamlining its business over the years. It continues to focus on the businesses with growth potential and fix or exit businesses that do not create value. One of the most significant steps taken in this direction was the separation of its U.S. Retail business named BrightHouse Financial, completed in 2018. This business required MetLife to hold a huge capital buffer and placed it at a significant competitive disadvantage. The move freed MetLife from a capital-intensive business. It also saved the company from exposure to interest rate and equity market volatility related to the business.

The company's focus on streamlining its business, its strong international operations and a disciplined capital management will drive long term growth.

In 2017 the company closed its UK Wealth Management business, which was suffering from low interest rates. The company sold MetLife Afore, S.A. de C.V., its pension fund management business in Mexico. In 2020, it closed the sale of its Hong Kong business, besides divesting its Argentina Annuity and Russia businesses.

In the second quarter of 2021, the company expects to complete the sale of MetLife Auto & Home to Farmers Insurance. This divestiture will see accretion benefits materializing in 2021 and will also drive double-digit earnings per share growth in 2022.

Though the exit of these businesses will dent top-line growth to some extent (in the coming quarters) in the form of fees and premium lost, these strategic steps will transform MetLife into a company with less volatility and more free cash flow in the long term, which should lead to higher return on equity.

- ▲ **Acquisitions:** MetLife has acquired Versant Health, which is a leader in vision care. This acquisition positions the business for double-digit adjusted PFO growth in 2021. It also penetrated the pet insurance space with the buyout of PetFirst. The company has also been keen on foraying into the digital estate planning space as evident from Willing acquisition in 2019. These acquisitions will lead to business diversification and inorganic growth for the company.
- ▲ **Cost-Saving Initiatives:** The company has undertaken strategies to control cost and increase efficiency. As a result of its cost saving initiatives, the company has achieved 170 basis point improvement in the annual direct expense ratio from 2015 to 2019. For the full year 2020, the expense ratio came in at 19.9%, which improved 40 basis points (bps) year over year.
- ▲ **Strong Solvency Position:** As of Dec 31, 2020, the company's debt was 20.7% of its equity, which compared favorably with the prior-quarter figure of 39.5%. As of Dec 31, 2020, the company's long-term debt of \$14.6 billion almost remained unchanged sequentially and was lower than its cash and cash equivalents of \$19.7 billion. Also, the company's next debt maturity of \$500-million senior notes will be in December 2022. The company's solvency position looks strong, which will help it sail through the difficult operating environment.
- ▲ **Strong Cash Flow and Capital Management:** The company also manages its capital efficiently. Its free cash flow ratio rose from 26% in 2012 to 72% in 2019. This strong free cash flow generation enabled MetLife to repurchase shares and make dividend payouts. After resuming dividend hikes in 2013, the company has successfully maintained its dividend increase trends for the past eight straight years. In April 2020, it increased its quarterly dividend by 4.5%. MetLife's quarterly dividend saw a CAGR of 10.7% since 2011. Its dividend yield of 3.4% is higher than the industry's average of 2.1%. Recently (December 2020), the company authorized a sharebuyback of upto \$3 billion. For the two-year (2019 and 2020) period, its free cash flow ratio excluding notable items totaled 78%, which was above the high end of its 65-75% target range. The company also expects to maintain its two-year average free cash flow ratio of 65-75% of its adjusted earnings. The company expects to generate approximately \$20 billion of free cash flow over the five-year period from 2020 through 2024, an amount equal to more than 40% of its current market capitalization.
- ▲ **Share Price Performance:** In six months' time, the stock has outperformed its industry. Moreover, its strong fundamentals are likely to drive the rally in the days ahead.

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## Reasons To Sell:

- ▼ **Pressure on Top line:** Due to challenging economic and operating environment stemming from the COVID-19 pandemic, the company expects a challenging face-to-face global sales environment, decline in sales across most segments, and lower adjusted PFO in majority of its segments barring Group Benefits. These in turn, may induce weak sales and thus put pressure on the top line. Notably, the company's revenues declined 1% year over year in 2020.
- ▼ **Net Investment Income Under Pressure:** The company's net investment income has been declining over the past two years (2017 and 2018). Though the same was up 2.6% in 2019, adjusted net investment income plunged 2.8% year over year in 2020. The low interest rate environment, (which is expected to continue till 2023) might exert pressure on net investment income because of low investment yields.
- ▼ **Exposure to Catastrophe Loss:** The company's property and casualty business exposes it to catastrophe risk. In third-quarter 2020, the company incurred after-tax cat losses of \$115 million, up 109% year over year. These weather related losses will continue to impart volatility to the company's underwriting results, which is likely to remain under pressure due to the COVID-19 pandemic.

Exposure to catastrophe loss, pressure on investment income, low profitability are some of the headwinds faced by the company

## Last Earnings Report

### MetLife (MET) Q4 Earnings Beat Estimates, Revenues Rise Y/Y

MetLife, Inc. delivered fourth-quarter 2020 adjusted operating earnings of \$2.03 per share beat the Zacks Consensus Estimate by 32.7%. The bottom line also improved 3% year over year.

The company's results benefited from higher revenues, robust underwriting results and improved variable investment income, partly offset by elevated costs.

#### Behind the Headlines

The company's adjusted operating revenues of \$20.6 billion climbed 13% year over year. Further, the top line outpaced the Zacks Consensus Estimate by 29.1%.

Adjusted premiums, fees and other revenues excluding pension risk transfer (PRT) grew 4% year over year to \$11.5 billion. Adjusted net investment income of \$4.9 billion improved 8% year over year courtesy of increased private equity returns.

Total expenses of \$19.3 billion escalated 12.1% year over year, due to higher policyholder benefits and claims, interest credited to policyholder account balances, and interest expense on debt.

Adjusted expense ratio, excluding total notable items related to other expenses and PRT, came in at 20.6%, reflecting an improvement of 90 basis points (bps) year over year.

Adjusted book value per share in the fourth quarter was \$54.18, which grew 11% year over year.

Adjusted return on equity was 15.2%, down 120 bps year over year.

#### Quarterly Segment Details

##### U.S.

Adjusted earnings in this segment surged 51% year over year to \$1 billion attributable to volume growth, higher variable investment income and sound underwriting results.

Adjusted premiums, fees and other revenues were \$10.6 billion, which improved 23% year over year owing to pension risk transfer transactions in Retirement and Income Solutions sub-segment.

##### Asia

Adjusted earnings of \$494 million rose 45% year over year courtesy of volume growth, rise in variable investment income, and sound underwriting results and expense margins.

Adjusted premiums, fees & other revenues were \$2.2 billion, which grew 4% year over year.

##### Latin America

Adjusted earnings of \$14 million plunged 91% year over year, due to weaker underwriting results stemming from the COVID-19 pandemic.

Adjusted premiums, fees & other revenues were \$878 million, which dipped 1% year over year.

##### EMEA

Adjusted earnings from EMEA improved 23% year over year to \$81 million. Also, adjusted earnings on a constant currency basis climbed 27% year over year attributable to volume growth, and sound underwriting results and expense margins.

Adjusted premiums, fees & other revenues of \$707 million increased 6% year over year.

##### MetLife Holdings

Adjusted earnings from MetLife Holdings totaled \$426 million, which advanced 58% year over year, courtesy of improved variable investment income and expense margins, and strong underwriting results.

Adjusted premiums, fees & other revenues were \$1.3 billion, down 4% year over year.

##### Corporate & Other

The segment reported adjusted loss of \$198 million in the fourth quarter against the prior-year quarter adjusted earnings of \$322 million.

##### Financial Update

As of Dec 31, 2020, shareholders' equity was \$74.6 billion, which improved 12.7% from the level at 2019 end.

Long-term debt as of the fourth-quarter end was \$14.6 billion, which increased 8.4% from the level at 2019 end.

Cash and cash equivalents of \$19.8 billion as of Dec 31, 2020 were up 19.3% from the level at 2019 end.

##### Share Repurchase Update

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Feb 03, 2021 |
| Sales Surprise   | 29.10%       |
| EPS Surprise     | 32.68%       |
| Quarterly EPS    | 2.03         |
| Annual EPS (TTM) | 6.17         |

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The company bought back shares worth \$571 million in the fourth quarter.

#### **Full-Year Update**

For 2020, the company's adjusted operating revenues totaled \$66.5 billion, down 1% year over year. Full-year adjusted earnings per share was \$6.16, which inched up 1% year over year.

Total expenses of \$60.9 billion for 2020 declined 3% year over year. Adjusted expense ratio, excluding total notable items related to other expenses and PRT, came in at 19.9%, reflecting an improvement of 40 bps year over year.

Adjusted return on equity was 11.9%, down 120 bps year over year. During 2020, the company repurchased shares worth \$1.2 billion.

#### **Near-Term Targets**

In the near term, the company expects adjusted return on equity to be 12-14%. While free cash flow ratio is anticipated to stay in the range of 65-75% of adjusted earnings, direct expense ratio is projected to be lower than 12.3%.

#### **Corporate Guidance for 2021**

While the company anticipates variable investment income to be \$1.2-\$1.4 billion for this year, it expects adjusted loss in the Corporate & Other segment between \$650 million and \$750 million in the same time frame.

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## Recent News

### MetLife's Unit to Offer Annuity Benefits to Lockheed Martin – Jan 26, 2021

MetLife's unit Metropolitan Tower Life Insurance Company inked a pension risk transfer deal with Lockheed Martin to offer annuity benefits to around 13,500 retirees and beneficiaries covered under Lockheed Martin's defined benefit (DB) pension plans. The agreement covers pension obligations of around \$1.4 billion.

### MetLife's Unit to Offer Annuity Benefits to Weyerhaeuser – Jan 25, 2021

MetLife's unit Metropolitan Tower Life Insurance Company signed a pension risk transfer deal with Weyerhaeuser to provide annuity benefits to around 5,200 retirees and beneficiaries covered under Weyerhaeuser's defined benefit (DB) pension plans. The agreement covers pension obligations of around \$765 million.

### MetLife Unit to Reinsure Legal & General's Longevity Risks – Jan 11, 2021

MetLife unit Metropolitan Tower Life Insurance Company recently announced the wrapping up of four U.K. longevity reinsurance deals with Legal & General Assurance Society Limited. The agreements, which were concluded in 2020, will pave the way for MetLife's unit to offer reinsurance for longevity risk valued at around \$2 billion of pension liabilities to Legal & General.

### MetLife Announces Dividend for Q1 2021 – Jan 7, 2021

The board of directors at MetLife announced a dividend of 46 cents per share for first-quarter 2021. The dividend will be paid out on Mar 15, 2021, to shareholders of record as of Feb 5.

## Valuation

MetLife's shares are up 48.7% and 16.3% in six months' time and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 28.4% and 24.4% in six months' time, respectively. Over the past year, the Zacks sub-industry and the sector are up 2% and 7.6%, respectively.

The S&P 500 index is up 14.7% and 23.3% in six months' time and past year, respectively.

The stock is currently trading at 0.69x trailing-12-month price-to-book, which compares to 1.35x for the Zacks sub-industry, 3.08x for the Zacks sector and 6.92x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.04x and as low as 0.32x, with a 5-year median of 0.7x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 0.72x book value.

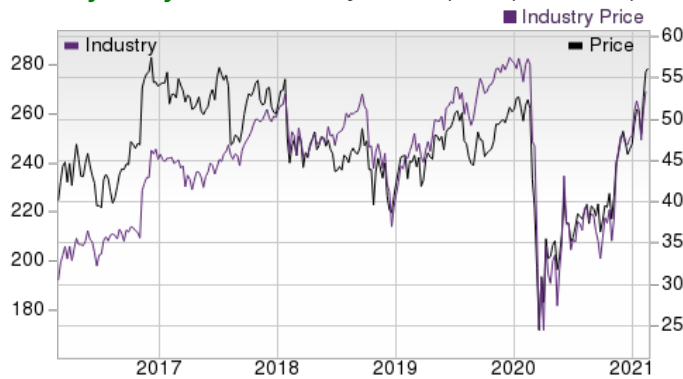
The table below shows summary valuation data for MET:

| Valuation Multiples - MET |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/B TTM                   | Current       | 0.69  | 1.35         | 3.08   | 6.92    |
|                           | 5-Year High   | 1.04  | 1.98         | 3.08   | 6.97    |
|                           | 5-Year Low    | 0.33  | 0.85         | 1.74   | 3.84    |
|                           | 5-Year Median | 0.75  | 1.48         | 2.59   | 4.97    |
| P/S F12M                  | Current       | 0.79  | 0.92         | 7.17   | 4.55    |
|                           | 5-Year High   | 0.94  | 1.74         | 7.17   | 4.55    |
|                           | 5-Year Low    | 0.32  | 0.74         | 5.02   | 3.21    |
|                           | 5-Year Median | 0.7   | 1.25         | 6.11   | 3.67    |
| P/E F12M                  | Current       | 8.9   | 9.93         | 17.02  | 22.67   |
|                           | 5-Year High   | 11.99 | 12.61        | 17.12  | 23.8    |
|                           | 5-Year Low    | 3.86  | 6.62         | 11.59  | 15.3    |
|                           | 5-Year Median | 8.23  | 9.7          | 14.45  | 17.84   |

As of 02/22/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                                  | Rec        | Rank |
|---------------------------------------------------|------------|------|
| W.R. Berkley Corporation (WRB)                    | Outperform | 2    |
| Aflac Incorporated (AFL)                          | Neutral    | 3    |
| American International Group, Inc. (AIG)          | Neutral    | 3    |
| The Allstate Corporation (ALL)                    | Neutral    | 3    |
| CNA Financial Corporation (CNA)                   | Neutral    | 2    |
| CNO Financial Group, Inc. (CNO)                   | Neutral    | 3    |
| The Hartford Financial Services Group, Inc. (HIG) | Neutral    | 3    |
| Prudential Financial, Inc. (PRU)                  | Neutral    | 4    |

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

| Industry Comparison Industry: Insurance - Multi Line |           |            |           | Industry Peers |           |           |
|------------------------------------------------------|-----------|------------|-----------|----------------|-----------|-----------|
|                                                      | MET       | X Industry | S&P 500   | AFL            | AIG       | PRU       |
| Zacks Recommendation (Long Term)                     | Neutral   | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                              | 3         | -          | -         | 3              | 3         | 4         |
| VGM Score                                            | C         | -          | -         | C              | B         | B         |
| Market Cap                                           | 50.46 B   | 4.28 B     | 27.70 B   | 33.77 B        | 36.68 B   | 33.30 B   |
| # of Analysts                                        | 4         | 3          | 13        | 6              | 6         | 4         |
| Dividend Yield                                       | 3.28%     | 1.57%      | 1.43%     | 2.75%          | 3.01%     | 5.47%     |
| Value Score                                          | A         | -          | -         | A              | A         | A         |
| Cash/Price                                           | 0.73      | 0.26       | 0.06      | 0.16           | 0.80      | 1.37      |
| EV/EBITDA                                            | 4.55      | 4.56       | 15.15     | 6.20           | 4.01      | 1.48      |
| PEG F1                                               | 1.07      | 1.33       | 2.38      | 2.17           | 0.95      | 0.65      |
| P/B                                                  | 0.67      | 0.98       | 3.87      | 1.01           | 0.57      | 0.49      |
| P/CF                                                 | 9.53      | 9.59       | 15.75     | 7.86           | 5.98      | 7.46      |
| P/E F1                                               | 9.04      | 10.06      | 20.80     | 10.84          | 9.49      | 7.11      |
| P/S TTM                                              | 0.74      | 0.93       | 3.10      | 1.52           | 0.84      | 0.61      |
| Earnings Yield                                       | 11.33%    | 9.94%      | 4.73%     | 9.23%          | 10.54%    | 14.05%    |
| Debt/Equity                                          | 0.21      | 0.26       | 0.66      | 0.24           | 0.56      | 0.29      |
| Cash Flow (\$/share)                                 | 6.03      | 3.48       | 6.65      | 6.26           | 7.37      | 11.53     |
| Growth Score                                         | F         | -          | -         | D              | C         | D         |
| Historical EPS Growth (3-5 Years)                    | 7.06%     | 7.06%      | 9.34%     | 10.23%         | 7.39%     | 4.13%     |
| Projected EPS Growth (F1/F0)                         | 3.04%     | 18.82%     | 14.09%    | -10.55%        | 78.04%    | 15.80%    |
| Current Cash Flow Growth                             | 0.52%     | 2.39%      | 1.92%     | 2.80%          | -30.14%   | -13.89%   |
| Historical Cash Flow Growth (3-5 Years)              | -4.47%    | 2.14%      | 7.62%     | 10.44%         | -3.88%    | 1.57%     |
| Current Ratio                                        | 0.13      | 0.50       | 1.39      | 0.06           | 0.33      | 0.10      |
| Debt/Capital                                         | 17.11%    | 21.44%     | 41.22%    | 19.05%         | 37.18%    | 22.42%    |
| Net Margin                                           | 7.92%     | 7.87%      | 10.60%    | 21.57%         | -13.59%   | -0.69%    |
| Return on Equity                                     | 7.94%     | 7.94%      | 14.86%    | 11.66%         | 3.55%     | 6.31%     |
| Sales/Assets                                         | 0.09      | 0.20       | 0.51      | 0.14           | 0.08      | 0.06      |
| Projected Sales Growth (F1/F0)                       | -2.15%    | 3.27%      | 6.63%     | -0.34%         | -6.61%    | 5.14%     |
| Momentum Score                                       | F         | -          | -         | F              | F         | C         |
| Daily Price Change                                   | 2.44%     | 0.54%      | 0.01%     | 2.35%          | 3.57%     | 2.39%     |
| 1-Week Price Change                                  | 0.72%     | 0.48%      | -0.16%    | 2.47%          | 2.85%     | 4.01%     |
| 4-Week Price Change                                  | 13.49%    | 2.81%      | 2.51%     | 5.67%          | 11.42%    | 5.06%     |
| 12-Week Price Change                                 | 24.41%    | 10.64%     | 7.83%     | 12.02%         | 14.72%    | 13.87%    |
| 52-Week Price Change                                 | 16.32%    | -2.00%     | 12.31%    | -0.04%         | -3.50%    | -1.96%    |
| 20-Day Average Volume (Shares)                       | 5,498,703 | 140,135    | 2,026,525 | 3,798,315      | 4,125,827 | 2,376,631 |
| EPS F1 Estimate 1-Week Change                        | 0.00%     | 0.00%      | 0.00%     | 0.00%          | -0.37%    | 0.00%     |
| EPS F1 Estimate 4-Week Change                        | -0.39%    | 0.00%      | 0.64%     | -8.59%         | -0.19%    | -0.86%    |
| EPS F1 Estimate 12-Week Change                       | -0.12%    | 0.36%      | 1.96%     | -8.49%         | 0.07%     | 0.64%     |
| EPS Q1 Estimate Monthly Change                       | -3.78%    | -1.11%     | 0.27%     | 2.59%          | -3.46%    | -1.11%    |

Source: Zacks Investment Research

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## 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.

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | F |
| Momentum Score | F |
| 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.

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## Disclosures

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## 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.

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**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.

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**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.

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**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.