

## McCormick & Company (MKC)

**\$89.54** (As of 01/29/21)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM: C

Value: C

Growth: B

Momentum: C

### Summary

McCormick has outpaced the industry in the past year. The company is gaining from high demand stemming from the coronavirus-led higher at-home consumption. This boosted the company's fourth-quarter fiscal 2020 sales, which grew year over year, backed by growth in Consumer and Flavor Solutions segment. Apart from these, the company has been gaining from its focus on cost savings and productivity enhancement through the Comprehensive Continuous Improvement (CCI) program. Also, McCormick is increasing its presence through lucrative acquisitions. However, coronavirus-induced expenses, increased employee benefit costs and higher planned brand marketing investments put pressure on adjusted operating income in the fourth quarter. This dented the company's bottom line, which missed the Zacks Consensus Estimate and declined in the quarter.

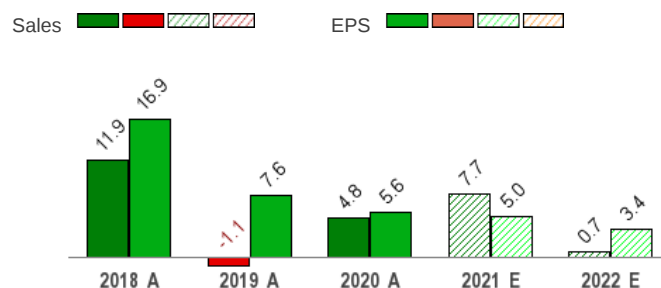
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$105.54 - \$56.11</b>          |
| 20-Day Average Volume (Shares) | <b>1,190,441</b>                   |
| Market Cap                     | <b>\$23.9 B</b>                    |
| Year-To-Date Price Change      | <b>-6.3%</b>                       |
| Beta                           | <b>0.44</b>                        |
| Dividend / Dividend Yield      | <b>\$1.36 / 1.5%</b>               |
| Industry                       | <b>Food - Miscellaneous</b>        |
| Zacks Industry Rank            | <b>Bottom 31% (174 out of 253)</b> |

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



|                               |              |
|-------------------------------|--------------|
| Last EPS Surprise             | <b>-2.5%</b> |
| Last Sales Surprise           | <b>-1.6%</b> |
| EPS F1 Estimate 4-Week Change | <b>-0.3%</b> |
| Expected Report Date          | <b>NA</b>    |
| Earnings ESP                  | <b>0.8%</b>  |
| P/E TTM                       | <b>18.4</b>  |
| P/E F1                        | <b>30.2</b>  |
| PEG F1                        | <b>3.8</b>   |
| P/S TTM                       | <b>4.3</b>   |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 1,389 E | 1,550 E | 1,487 E | 1,632 E | 6,077 E |
| 2021 | 1,378 E | 1,566 E | 1,483 E | 1,606 E | 6,035 E |
| 2020 | 1,212 A | 1,401 A | 1,430 A | 1,558 A | 5,601 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.57 E | \$0.73 E | \$0.81 E | \$0.97 E | \$3.07 E |
| 2021 | \$0.55 E | \$0.71 E | \$0.77 E | \$0.89 E | \$2.97 E |
| 2020 | \$0.54 A | \$0.74 A | \$0.77 A | \$0.79 A | \$2.83 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 01/29/2021. The report's text and the analyst-provided price target are as of 02/01/2021.

## Overview

Founded in 1889 and based in Sparks, MD, McCormick & Company, Inc. is a leading manufacturer, marketer and distributor of spices, seasonings, specialty foods and flavors to the entire food industry across the globe.

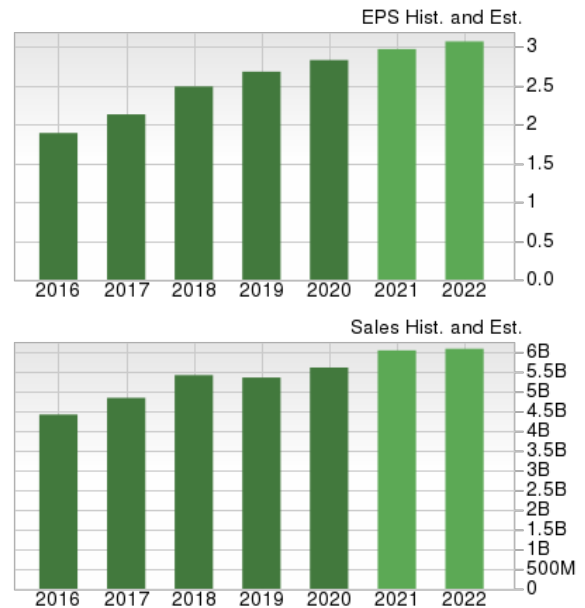
The company's key sales, distribution and production facilities are located in North America and Europe. Furthermore, the company has facilities in China, Australia, Mexico, India, Singapore, Central America, Thailand and South Africa.

McCormick conducts its business through two segments – Consumer and Flavor Solutions.

The **Consumer Business** segment offers spices, herbs, extracts, seasoning blends, sauces, marinades, and specialty foods to the consumer food market. This segment primarily caters to retail outlets like grocery, mass merchandise, warehouse clubs and discount and drug stores.

The division markets its products under brand names like McCormick, Lawry's, Zatarain's, Thai Kitchen, Simply Asia and Club House in the U.S.; and Ducros, Vahine, Schwartz and Kamis in Europe; and the Middle East and Africa (EMEA). In Asia-Pacific, the primary brand is McCormick, while in India the company has a joint venture with Kohinoor.

The **Flavor Solutions** segment sells seasoning blends, natural spices and herbs, wet flavors, coating systems, and compound flavors to food manufacturers and food service customers. The products are sold through distributors.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **COVID-19 Fuels Q4 Sales, Impressive Outlook:** Shares of McCormick have gained 9.7% in the past year compared with the industry's growth of 2.4%. The company is benefiting from high demand stemming from the coronavirus-led higher at-home consumption. This was seen in the fourth quarter of fiscal 2020, wherein sales of \$1,557.9 million rose 5% year over year. On a constant-currency basis, sales increased 4% on the back of strength in both the segments. Sustained shift in consumers' behavior toward increased cook and eat at-home amid the coronavirus outbreak fueled demand in the Consumer segment. Moreover, increased sales to packaged food companies drove growth in the Flavor Solutions segment. Incidentally, sales in the Consumer and Flavor Solutions segment increased 6% and 3%, respectively, during the fourth quarter.

McCormick focuses on saving costs and enhancing productivity through its CCI program. Also, it has a solid brand portfolio and regularly undertakes innovations.

For fiscal 2021, the company expects to achieve sales increase of 7-9% (up 5-7% at cc) compared with the prior-year's figure. Growth is expected to be organic in the segments, backed by new products, brand marketing, category management as well as differentiated customer engagement. Also, the growth projection takes into account additional impact of the Cholula and FONA buyout. Moreover, the company expects at-home consumption trends to remain favorable owing to the ongoing pandemic. Also, it expects to see gradual rebound in the demand from restaurant and other foodservice customers. Further, adjusted operating income is expected to increase in the range of 8-10%, (up 6-8% at cc) compared with the prior-year quarter's figure. Adjusted earnings per share are expected in the range of \$2.91-\$2.96, reflecting a rise of 3-5% (up 1-3% at cc).

- ▲ **CCI Program Boosts Margin:** McCormick focuses on saving costs and enhancing productivity through its ongoing CCI program. Started in 2009, McCormick's CCI program helped the company to reduce costs and enhance productivity. It has used CCI savings to increase investments, thereby leading to higher sales and profits.

McCormick achieved cost savings of \$113 million in fiscal 2020, courtesy of the CCI program. Further, the company expects to achieve CCI-led cost savings of nearly \$110 million in fiscal 2021. Notably, cost savings from CCI program aided gross margin in the fourth quarter of fiscal 2020, which came in line with the year-ago period's figure. Further, savings from CCI also aided adjusted operating income during the quarter. We believe that such cost savings are likely to continue enhancing the company's profits in the future.

- ▲ **Product Innovation & Shift toward Healthy Products:** McCormick regularly enhances products through innovation to remain competitive and tap the evolving demand for new flavors, spices and herbs. Aided by a sturdy brand image, McCormick enjoys strong retail acceptance for its new products. Notably, new product launches are an important part of the company's sales growth. During 2020, 7% of McCormick's overall sales were from products launched in the last three years. Moreover, management is optimistic about its strong product pipeline for 2021.

Additionally, the company is on track to augment robust marketing support for its products. Apart from this, management remains well aligned with consumer demand for flavorful healthy eating and has developed a range of natural and organic offerings. In this regard, the company's Flavor Real platform offers organic, non-GMO and gluten free products. Additionally, the company's acquisition of FONA has bolstered its clean and natural platform.

- ▲ **Expansion through Acquisitions, Capacity Enhancement:** McCormick has strategically increased its presence through acquisitions to grow its portfolio. Recently, McCormick announced that it has bought 100% stake in FONA International, LLC and some of its affiliates. FONA's diverse portfolio will help McCormick bolster its value-add offerings and expand the flavor solutions segment into attractive categories. In Dec 2020, McCormick completed the acquisition of the parent company of Cholula Hot Sauce — a premium Mexico-based hot sauce brand. McCormick believes that the buyout of Cholula accelerates its growth potential across the condiment platform and widens the product portfolio in the hot sauce category.

Further, the company's acquisition of the food division of RB Foods (concluded in Aug 2017) is noteworthy in this regard. With iconic brands like Frank's RedHot, French's and Cattleman's, RB Foods is likely to continue being a profitable asset for McCormick's flavor portfolio. Notably, Frank's RedHot and French's Mustard hold important positions in the company's condiment portfolio. As a result, these brands position the company in the leading U.S. condiments category and place it well for international expansion. Some of the other noteworthy acquisitions of the company are Italy-based Enrico GiottiSpA (Dec 2016) as well as Australia-based Botanical Food Company (April 2016). These takeovers have led to augmenting portfolio strength.

Apart from these, the company is on track to make investments to expand its infrastructure worldwide. Management, in its fiscal fourth-quarter earnings call, stated that it is on track to construct a state-of-the-art Northeast Distribution Center in Maryland to optimize its distribution network. The company is also making a new Flavor Solutions production unit in the U.K. to support growing customer base in the region. In China, it is investing in flavor capabilities to enhance Flavor Solutions growth.

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## Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, McCormick looks pretty overvalued when compared with the industry as well as the S&P 500 over a year. The stock has a trailing 12-month P/E ratio of 31.64X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 20.83X and 27.32X, respectively.
- ▼ **High Costs a Worry:** During the fourth quarter of fiscal 2020, McCormick's adjusted operating income declined 4% year over year to reach \$290 million. The downturn was caused by coronavirus-induced expenses, increased employee benefit expenses and higher planned brand marketing investments. Moreover, reduced adjusted operating income put pressure on adjusted earnings that declined to 79 cents per share from 81 cents reported in the year-ago quarter. In fact, management expects to incur pandemic-related costs of nearly \$60 million during fiscal 2021 majorly due to third-party manufacturing expenses.
- ▼ **Financial Status:** McCormick's long-term debt of \$3,754 million at the end of fourth-quarter fiscal 2020 (as of Nov 30, 2020) increased 0.4% on a quarter-on-quarter basis. Further, the company's current debt stood at \$1,151 million as of Nov 30, while its cash and cash equivalents was \$424 million.
- ▼ **Intense Competition:** McCormick operates in the highly competitive food industry. The company mainly competed with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

Coronavirus-induced expenses, increased employee benefit costs and higher planned brand marketing investments weigh on McCormick's fourth-quarter fiscal 2020 results.

## Last Earnings Report

### McCormick's Q4 Earnings Miss Estimates, Sales Up Y/Y

McCormick posted fourth-quarter fiscal 2020 results, with the top and the bottom line missing the Zacks Consensus Estimate. Moreover, earnings declined on a year-over-year basis. Nevertheless, sales increased on the back of strength in both the segments.

#### Quarter in Detail

Adjusted earnings of 79 cents per share declined from 81 cents reported in the year-ago quarter, mainly due to reduced adjusted operating income. This was somewhat offset by lower interest expenses. Moreover, the metric missed the Zacks Consensus Estimate of 81 cents per share.

This global leader of flavors and spices generated sales of \$1,557.9 million, up 5% year over year and including favorable impact from currency translation of 1%. The uptick was driven by sales growth in both segments. On a constant-currency (cc) basis, sales increased 4% on the back of strength in both the segments. However, sales in the quarter missed the Zacks Consensus Estimate of \$1,583 million.

Gross margin came in line with the year-ago quarter's level at 42.4%. Notably, cost savings from the Comprehensive Continuous Improvement (CCI) program was completely offset by coronavirus-induced related costs and higher transportation expenses.

Adjusted operating income declined 4% to reach \$290 million due to increased planned brand marketing investments, pandemic-induced expenses and increased employee benefit expenses. Nevertheless, increased sales and savings from CCI program offered some respite. Also, the adjusted operating margin came in at 18.6%, down from 20.4% reported in the year-ago quarter.

#### Segment Details

**Consumer:** Sales increased 6% (up 5% in cc) to \$1,023.7 million. The segment gained on the back of higher demand stemming from increased cook-at-home trend in the Americas and Europe, Middle East and Africa (EMEA) regions. Sales in the Americas rose 6% owing to growth in several brands especially strength in Lawry's, Frank's RedHot, French's, Zatarain's, Simply Asia and Thai Kitchen. In the EMEA region, sales increased 15% on the back of broad-based growth, with particular rise in branded spices and seasonings and homemade dessert items. However, sales in the Asia-Pacific region declined 7% due to softness in products related to away from home consumption.

**Flavor Solutions:** Sales in the segment increased 3% from the prior-year quarter's figure to \$534.2 million, driven by growth across all three regions. Sales in the Americas inched up 1% thanks to increased sales to packaged food companies. This was somewhat offset by reduced revenues from quick service restaurant and branded foodservice customers. Sales in the EMEA region increased 7%, while sales in Asia-Pacific region rose 11% driven by increased sales to quick service restaurants in China and Australia.

#### Financial Update

McCormick exited the quarter with cash and cash equivalents of \$423.6 million, long-term debt of \$3,753.8 million and total shareholders' equity of \$3,940 million. For 12 months ended Nov 30, net cash provided by operating activities was \$1,041.3 million.

#### 2021 Outlook

The company expects to achieve sales increase of 7-9% (up 5-7% at cc) compared with the prior-year's figure. Growth is expected to be organic in both the segments, backed by new products, brand marketing, category management as well as differentiated customer engagement. Also, the growth projection takes into account additional impact of the Cholula and FONA buyout. Moreover, the company expects at-home consumption trends to remain favorable owing to the ongoing pandemic. It expects to see gradual rebound in the demand from restaurant and other foodservice customers.

Further, adjusted operating income is expected to increase in the band of 8-10%, (up 6-8% at cc) compared with the prior-year quarter's figure. Adjusted earnings per share are expected in the range of \$2.91-\$2.96, reflecting a rise of 3-5% (up 1-3% at cc). The outlook reflects solid growth in base business as well as contributions from acquisitions somewhat offset by impact from incremental 2021 business transformation and pandemic-related costs among others.

| Quarter Ending   | 11/2020      |
|------------------|--------------|
| Report Date      | Jan 28, 2021 |
| Sales Surprise   | -1.59%       |
| EPS Surprise     | -2.47%       |
| Quarterly EPS    | 0.79         |
| Annual EPS (TTM) | 2.83         |

## Recent News

### McCormick Buys FONA for \$710M – Dec 30, 2020

McCormick announced that it has bought 100% stake in FONA International, LLC and some of its affiliates. McCormick has acquired FONA for \$710 million. The deal will be financed with cash and commercial paper. We note that FONA's yearly net sales are nearly \$114 million. The metric is anticipated to grow in the mid-to-high single-digit rate. McCormick expects FONA's addition to be accretive to its gross margin. Moreover, management anticipates expanding its margin further through strong revenue growth. Apart from this, shift of the Flavor Solutions portfolio toward increased value-added and technically insulated items is likely to contribute to growth. The company envisions the deal to be neutral to adjusted earnings per share (EPS) in 2021. That said, the acquisition is likely to be accretive to adjusted EPS in 2022, excluding transaction and integration costs. Although the deal will lead to a rise in McCormick's net-debt-to-adjusted EBITDA ratio, it is committed to maintaining a strong investment grade credit rating and reducing debt with anticipated strong cash flow generation. Management is also on track with its dividend policy.

### McCormick Acquires Cholula to Boost Condiment Platform – Nov 30, 2020

McCormick completed the previously-announced acquisition of the parent company of Cholula Hot Sauce — a premium Mexico-based hot sauce brand. The company bought Cholula from L Catterton for \$800 million, financed through a combination of cash on hand and commercial paper. Notably, McCormick anticipates transaction and integration expenses to dilute earnings per share (EPS) in fiscal 2020 and 2021. Management expects the deal to have no impact on adjusted EPS during this time. Further, the company envisions the buyout to be accretive to adjusted EPS in 2021.

In a press release dated Nov 24, McCormick stated that Cholula's yearly net sales are nearly \$96 million. The metric is anticipated to grow mid-to-high single digits in a normal environment after the coronavirus pandemic. Further, management believes that Cholula, which has an attractive margin profile, will be accretive to the Consumer and the Flavor Solutions segments (excluding transaction and integration costs). McCormick believes that the buyout of Cholula accelerates its growth potential across the condiment platform and widens the product portfolio in the hot sauce category.

## Valuation

McCormick's shares are down 6.3% in the year-to-date period and up 9.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 2.8% and 4.6%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry went up 2.4% while the sector declined 3%.

The S&P 500 index is down 0.9% in the year-to-date period and up 16.1% in the past year.

The stock is currently trading at 29.96X forward 12-month earnings, which compares to 18.73X for the Zacks sub-industry, 18.74X for the Zacks sector and 22.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.19X and as low as 19.38X, with a 5-year median of 25.18X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$94 price target reflects 31.45X forward 12-month earnings.

The table below shows summary valuation data for MKC

| Valuation Multiples - MKC |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 29.96 | 18.73        | 18.74  | 22.02   |
|                           | 5-Year High   | 37.19 | 22.91        | 22.42  | 23.8    |
|                           | 5-Year Low    | 19.38 | 14.75        | 16.5   | 15.3    |
|                           | 5-Year Median | 25.18 | 18.45        | 19.53  | 17.83   |
| P/S F12M                  | Current       | 3.96  | 1.74         | 10.01  | 4.34    |
|                           | 5-Year High   | 5.09  | 2.03         | 11.97  | 4.34    |
|                           | 5-Year Low    | 2.3   | 1.38         | 8.59   | 3.2     |
|                           | 5-Year Median | 2.91  | 1.69         | 10.48  | 3.68    |
| EV/EBITDA F12M            | Current       | 21.32 | 12.7         | 35.58  | 17.2    |
|                           | 5-Year High   | 26.66 | 14.3         | 38.25  | 18.8    |
|                           | 5-Year Low    | 13.9  | 10.61        | 25.83  | 12.92   |
|                           | 5-Year Median | 17.75 | 12.78        | 34.14  | 15.71   |

As of 01/29/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 253)



## Top Peers

| Company (Ticker)               | Rec          | Rank |
|--------------------------------|--------------|------|
| B&G Foods, Inc. (BGS)          | Outperform   | 1    |
| Ingredion Incorporated (INGR)  | Neutral      | 3    |
| The Kraft Heinz Company (KHC)  | Neutral      | 3    |
| Lamb Weston Holdings Inc. (LW) | Neutral      | 3    |
| Post Holdings, Inc. (POST)     | Neutral      | 3    |
| Tate & Lyle PLC (TATYY)        | Neutral      | 2    |
| TreeHouse Foods, Inc. (THS)    | Neutral      | 3    |
| Flowers Foods, Inc. (FLO)      | Underperform | 3    |

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

| Industry Comparison Industry: Food - Miscellaneous |           |            |           | Industry Peers |         |         |
|----------------------------------------------------|-----------|------------|-----------|----------------|---------|---------|
|                                                    | MKC       | X Industry | S&P 500   | BGS            | INGR    | POST    |
| Zacks Recommendation (Long Term)                   | Neutral   | -          | -         | Outperform     | Neutral | Neutral |
| Zacks Rank (Short Term)                            | 3         | -          | -         | 1              | 3       | 3       |
| VGM Score                                          | C         | -          | -         | C              | A       | C       |
| Market Cap                                         | 23.89 B   | 3.83 B     | 26.06 B   | 2.45 B         | 5.06 B  | 6.25 B  |
| # of Analysts                                      | 6         | 3          | 13        | 3              | 1       | 4       |
| Dividend Yield                                     | 1.52%     | 0.00%      | 1.48%     | 4.99%          | 3.39%   | 0.00%   |
| Value Score                                        | C         | -          | -         | B              | A       | B       |
| Cash/Price                                         | 0.01      | 0.07       | 0.06      | 0.03           | 0.11    | 0.18    |
| EV/EBITDA                                          | 23.99     | 14.05      | 14.72     | 15.12          | 7.49    | 14.61   |
| PEG F1                                             | 3.69      | 3.40       | 2.42      | NA             | NA      | NA      |
| P/B                                                | 6.06      | 2.93       | 3.60      | 2.90           | 1.83    | 2.27    |
| P/CF                                               | 25.75     | 12.65      | 14.66     | 13.53          | 7.54    | 11.47   |
| P/E F1                                             | 29.55     | 20.36      | 19.64     | 15.80          | 11.72   | 25.65   |
| P/S TTM                                            | 4.27      | 1.47       | 2.86      | 1.27           | 0.85    | 1.10    |
| Earnings Yield                                     | 3.32%     | 4.57%      | 4.98%     | 6.33%          | 8.53%   | 3.90%   |
| Debt/Equity                                        | 0.95      | 0.51       | 0.69      | 2.14           | 0.76    | 2.46    |
| Cash Flow (\$/share)                               | 3.48      | 2.70       | 6.85      | 2.81           | 10.01   | 8.27    |
| Growth Score                                       | B         | -          | -         | C              | B       | D       |
| Historical EPS Growth (3-5 Years)                  | 12.27%    | 4.11%      | 9.69%     | -0.78%         | -1.01%  | 21.88%  |
| Projected EPS Growth (F1/F0)                       | 5.01%     | 13.74%     | 12.80%    | 2.55%          | 7.87%   | 36.44%  |
| Current Cash Flow Growth                           | 5.89%     | 3.40%      | 4.88%     | -0.56%         | -10.22% | -25.16% |
| Historical Cash Flow Growth (3-5 Years)            | 9.99%     | 5.26%      | 8.07%     | 4.81%          | 2.71%   | 12.67%  |
| Current Ratio                                      | 0.68      | 1.80       | 1.38      | 2.56           | 2.54    | 2.35    |
| Debt/Capital                                       | 48.79%    | 35.89%     | 41.57%    | 68.15%         | 44.19%  | 71.10%  |
| Net Margin                                         | 13.34%    | 4.59%      | 10.56%    | 6.75%          | 5.75%   | 0.01%   |
| Return on Equity                                   | 20.17%    | 11.66%     | 15.23%    | 17.25%         | 15.30%  | 6.45%   |
| Sales/Assets                                       | 0.51      | 0.94       | 0.51      | 0.59           | 0.95    | 0.47    |
| Projected Sales Growth (F1/F0)                     | 7.44%     | 1.99%      | 5.92%     | 4.15%          | NA      | 1.99%   |
| Momentum Score                                     | C         | -          | -         | F              | B       | D       |
| Daily Price Change                                 | -1.63%    | -1.13%     | -1.88%    | 1.52%          | -1.91%  | -2.37%  |
| 1-Week Price Change                                | -1.67%    | 0.48%      | -0.02%    | 6.45%          | -1.15%  | 0.12%   |
| 4-Week Price Change                                | -6.34%    | 0.00%      | -1.48%    | 37.32%         | -4.07%  | -6.10%  |
| 12-Week Price Change                               | -5.02%    | 9.33%      | 6.91%     | 35.04%         | 5.83%   | 3.02%   |
| 52-Week Price Change                               | 8.20%     | 3.89%      | 5.65%     | 136.08%        | -17.18% | -10.82% |
| 20-Day Average Volume (Shares)                     | 1,190,441 | 140,212    | 1,962,643 | 3,260,143      | 526,996 | 370,085 |
| EPS F1 Estimate 1-Week Change                      | -1.24%    | 0.00%      | 0.00%     | 0.00%          | 0.00%   | -0.80%  |
| EPS F1 Estimate 4-Week Change                      | -0.28%    | 0.00%      | 0.26%     | 0.00%          | 0.00%   | 0.20%   |
| EPS F1 Estimate 12-Week Change                     | 0.84%     | 0.84%      | 1.63%     | 19.90%         | 3.21%   | -19.22% |
| EPS Q1 Estimate Monthly Change                     | -3.57%    | 0.00%      | 0.05%     | 0.00%          | NA      | -0.76%  |

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    | C |
| Growth Score   | B |
| Momentum Score | C |
| 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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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.

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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 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.