

## Altria Group, Inc. (MO)

**\$43.74** (As of 08/31/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

## Summary

Altria's shares have outpaced the industry in the past three months. The company has been benefiting from its pricing strategy, which boosted adjusted OCI in smokeable and oral tobacco product units in the second quarter of 2020. This, in turn, aided the bottom line, which beat the consensus mark in the quarter. Also, the quarter depicted strength in the oral tobacco products segment, which is poised to gain on expansions in IQOS and on! However, Altria's revenues were hurt by the smokeable product unit's softness due to low domestic cigarette shipment volumes. Cigarette volumes have long been affected by stern regulations and rising health awareness. Altria still expects domestic cigarette industry volumes to decline in 2020 at a lower rate, thanks to better year-to-date industry trends and anticipations of continued resilience.

## Data Overview

52-Week High-Low	<b>\$51.78 - \$30.95</b>
20-Day Average Volume (Shares)	<b>6,649,111</b>
Market Cap	<b>\$81.3 B</b>
Year-To-Date Price Change	<b>-12.4%</b>
Beta	<b>0.46</b>
Dividend / Dividend Yield	<b>\$3.44 / 7.7%</b>
Industry	<b>Tobacco</b>
Zacks Industry Rank	<b>Top 18% (45 out of 251)</b>

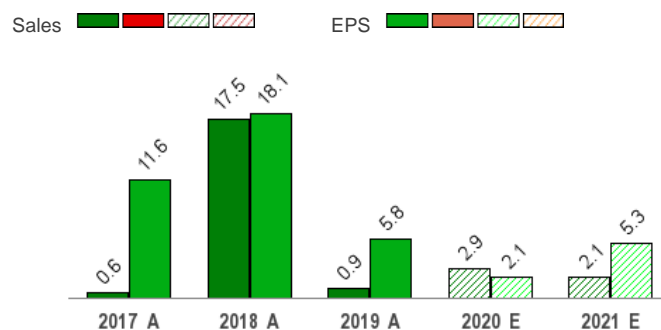
Last EPS Surprise	<b>2.8%</b>
Last Sales Surprise	<b>-0.2%</b>
EPS F1 Estimate 4-Week Change	<b>0.1%</b>
Expected Report Date	<b>10/29/2020</b>
Earnings ESP	<b>0.0%</b>

P/E TTM	<b>10.2</b>
P/E F1	<b>10.2</b>
PEG F1	<b>1.6</b>
P/S TTM	<b>3.2</b>

## Price, Consensus & Surprise



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



## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,894 E	5,334 E	5,551 E	4,911 E	20,798 E
2020	5,046 A	5,062 A	5,446 E	4,817 E	20,373 E
2019	4,389 A	5,193 A	5,412 A	4,802 A	19,796 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.04 E	\$1.19 E	\$1.24 E	\$1.07 E	\$4.54 E
2020	\$1.09 A	\$1.09 A	\$1.14 E	\$0.98 E	\$4.31 E
2019	\$0.90 A	\$1.10 A	\$1.08 A	\$1.02 A	\$4.22 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 08/31/2020. The reports text is as of 09/01/2020.

## Overview

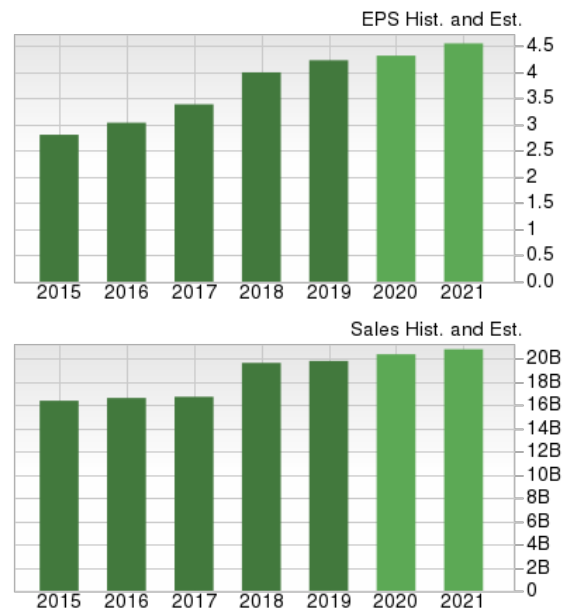
Altria Group has been evolving with the changing industry dynamics. Given the rising health consciousness and stern government regulations to discourage smoking, this tobacco behemoth has been moving beyond traditional cigarettes and expanding in the smokeless category. We note that revenues from the oral product category have been steadily rising on the back of growing popularity for reduced risk products. In this respect, Altria is gaining from the sale of IQOS in United States, through its licensing deal with Phillip Morris. Further, Altria's investment in Cronos Group highlights its focus on exploring the cannabis market.

This Richmond-based company specializes in cigarettes, smokeless products and wine. It is the holding company for Philip Morris USA, Inc. (PM USA), U.S. Smokeless Tobacco Company LLC (UST), John Middleton Inc., Sherman Group Holdings, LLC and its subsidiaries — Ste. Michelle Wine Estates Ltd. (Ste. Michelle) and Philip Morris Capital Corporation (PMCC).

At Dec 31, 2019, Altria had an approximate 10.1% ownership in Anheuser-Busch InBev SA/NV (AB InBev). It also holds investments in JUUL and Burger Sohne Holding AG. Altria reports under the following segments on the basis of products:

- **Smokeable Products (88% of 2Q20 Sales):** The segment, which comprises mainly of PM USA, sells major brands like Marlboro cigarettes, Virginia Slims cigarettes and Parliament cigarettes.
- **Oral Tobacco Products (10.4%):** The segment was formed after the acquisition of UST and its smokeless tobacco business in Jan 2009. The smokeless products segment includes brands like Copenhagen, Skoal, Red Seal, Husky and Marlboro Snus, a PM USA spit-less smokeless tobacco product.
- **Wine:** The segment was formed after the acquisition of UST and its premium wine business — Ste. Michelle. The main brands are Chateau Ste. Michelle and Columbia Crest. The company also owns wineries or distributes wines from several other wine regions and foreign countries.
- **All Other:** Altria holds investments in finance leases, principally in transportation (including aircraft), power generation and manufacturing equipment and facilities.

Products of the company are mainly sold through distributors, wholesalers and large retail chains.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Strong Pricing Aids Q2 Earnings, Stock Outperforms:** Shares of Altria have gained 10.3% in the past three months, while the industry inched up 0.5%. The company's strong pricing has helped it stay afloat in the industry even in the face of declining cigarette volumes. Though higher pricing might lead to possible decline in cigarette consumption, it is seen that smokers tend to absorb price increases owing to the addictive quality of cigarettes. In second-quarter 2020, higher pricing boosted adjusted operating companies income (OCI) growth in both smokeable and oral tobacco product segments. Continuation of such trends is likely to aid Altria's OCI and bottom line. Incidentally, second-quarter adjusted earnings of \$1.09 per share rose 0.9% year over year and beat the Zacks Consensus Estimate of \$1.06. The uptick can be attributed to increased adjusted OCI in the smokeable and oral tobacco product segments along with a reduced number of outstanding shares.

The company gains from strategic pricing for its smokeable and oral tobacco products. Moreover, it is striving to expand in the oral tobacco products space.

Altria noted that until Jul 28, its tobacco business did not witness any material disruption related to the government's restrictions on consumer movements and business operations. Most of the retail stores where the company's products are sold (like convenience stores) have been considered as essential businesses and remain open. Though high unemployment rates amid the pandemic were a headwind for adult tobacco consumers, lower and middle income Americans received respite from government's stimulus and unemployment benefits. Additionally, lack of social engagements has facilitated increased tobacco consumption. These factors led to better performance of overall tobacco industry volumes in the second quarter. Better year-to-date industry trends and anticipations of continued buoyancy in the category encouraged management to lift its domestic cigarette industry volumes target for 2020, though it is still anticipated to decline. Finally, Altria envisions adjusted earnings per share for 2020 in the range of \$4.21-\$4.38, indicating flat to 4% growth from the year-ago period's \$4.21.

▲ **Efforts to Expand Oral Tobacco Products & Other Categories:** There has been a general shift among consumers toward several reduced risk tobacco products (RRPs) due to serious health hazards of smoking cigarettes. Altria has been responding to the changing market scenario by offering several oral tobacco products. During the second quarter of 2020, revenues in the unit improved 9.6% from the year-ago quarter to \$660 million, driven by greater pricing and shipment volumes. Continuation of such trends is likely to fuel Altria in the forthcoming periods. Altria has been making considerable progress in its noncombustible business platform. Growth in the noncombustible business has been backed by the launch of IQOS as well as the commercialization of on!

Altria is undertaking dedicated endeavors to bolster presence in the RRP space. In this respect, the marketing and technology sharing agreement between Altria and Philip Morris, pertaining to the sale of IQOS in the United States, was approved by the FDA in 2019. In fact, the FDA approved the marketing of IQOS and HeatSticks as Modified Risk Tobacco Products in July, which is likely to bolster the business. Also, in the month, Altria's subsidiary, PM USA, launched IQOS in Charlotte and expects to sell HeatSticks in more than 700 stores across Atlanta, Richmond and Charlotte by August-end. Additionally, PM USA intends to expand IQOS to four new markets, tie-up with trade retailers for its greater availability and expand the distribution of HeatSticks. PM USA is most likely to gain on continued strength and expansion of IQOS. Apart from this, Altria (through its subsidiary Helix Innovations) holds 80% stake in certain companies of Burger Group, which is engaged in the commercialization of the oral tobacco-derived nicotine (TDN) pouch product — on! Management believes that on! is a worthwhile addition to Altria's smokeless portfolio, as oral TDN products are gaining popularity in the United States owing to their low risk claims. Notably, on! was sold in more than 40,000 stores by the end of the second quarter of 2020, reflecting a 43% rise from the first quarter. We note that Helix submitted premarket tobacco product applications (PMTA) with the FDA in May for all 35 on! SKUs. The PMTA is currently under review. Apart from this, Altria is undertaking efforts to expand in the cannabis industry. This is evident from the acquisition of stakes of the Canadian cannabis company, Cronos Group. We expect Altria's efforts to strengthen presence in the cannabis space is likely to boost growth in the forthcoming periods.

▲ **Cost Reduction Efforts:** The company is progressing well with its cost-reduction initiatives. Markedly, Altria generated annualized cost savings of \$600 million during 2019, surpassing its Cost Reduction Program target of \$575 million. The program includes savings generated through reductions in workforce and third-party spending as well as the closure of Nu Mark operations.

▲ **Financial Flexibility:** Altria looks strong on the dividend payout front. On Jul 27, the company raised its quarterly dividend from 84 cents per share to 86 cents, which is payable on Oct 9, 2020, to shareholders of record as of Sep 15. The latest annualized rate of \$3.44 per share reflects a 2.4% rise from the previous rate. Notably, the company maintains its long-term dividend payout ratio goal of about 80% of the adjusted EPS. We note that the company currently has a dividend payout of 78.5%, dividend yield of 7.7% and free cash flow yield of 12.4%. With an annual free cash flow return on investment of 29.7%, ahead of the industry's 18.7%, the dividend payment is likely to be sustainable.

Though Altria had borrowed the entire \$3 billion under its revolving credit facility in March due to the pandemic-related uncertainty, the company repaid this amount in June and had \$3 billion available under the revolving credit agreement as of Jun 30, 2020. Further, Altria issued long-term senior unsecured notes with a total principal amount of \$2 billion in May. At the end of the second quarter, the company had a cash balance of \$4.8 billion, while its current debt stood at \$1.5 billion. Thereafter, the company had cash of \$3 billion after paying out dividends for July as well as taxes. Altria remains focused on having a higher-than-normal cash balance to protect financial flexibility.

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## Reasons To Sell:

- ▼ **Soft Cigarette Volumes:** Altria has long been struggling with weak shipment volumes in the smokeable products unit. During the second quarter of 2020, net revenues in the smokeable products category fell 4.3% year over year to \$5,603 million due to reduced shipment volumes, somewhat negated by higher pricing and a decrease in promotional investments. Reported domestic cigarette shipment volumes declined 8.8% year over year, mainly due to trade inventory movements. On an adjusted basis, however, smokeable products' domestic cigarette shipment volumes fell an estimated 2% and total domestic cigarette industry volumes remained flat. Meanwhile, Altria's reported cigar shipment volumes dropped 1.4%. Also, total cigarette retail share declined 1 percentage point to 49% in the quarter.

Management expects domestic cigarette industry volume to decline in 2020. Further, Altria's wine segment has been seeing soft sales due to COVID-19 related restrictions.

Altria still expects domestic cigarette industry volumes to drop in 2020, though at a lower rate compared to before. Incidentally, the company now expects the domestic cigarette industry's adjusted volumes to decline 2-2.5% compared with a 4-6% decrease expected earlier. Cigarette shipment volumes in general have been adversely impacted by anti-tobacco campaigns and increased consumer awareness regarding the harmful impacts of tobacco consumption. Regulatory hurdles (discussed below) are also a vital factor limiting the marketing of cigarettes, thereby adversely impacting its sales volume. This has been hurting Altria's smokeable product category.

- ▼ **Regulatory Restrictions on Tobacco Consumption:** Government bodies across different nations are imposing restrictions on tobacco companies. The U.S. Food and Drug Administration (FDA) has made it mandatory for tobacco companies to use precautionary labels on cigarette packets to dissuade customers from smoking. Also, per court orders, Altria and other cigarette manufacturers have been directed to put up self-critical advertisements on television and newspapers to dissuade customers from smoking.

The FDA had also earlier announced that tobacco makers must seek marketing authorization for any tobacco product introduced after Feb 15, 2007. In May 2016, the FDA expanded this restriction to include e-cigarettes, pipe tobacco, cigars and hookah alongside traditional tobacco products. Moreover, the European Union and the FDA proposed a ban on menthol in accordance with the Tobacco Control Act which essentially states that menthol cigarettes have an adverse impact on public health. In recent developments, the FDA raised concerns surrounding the consumption of e-cigarettes. Regulatory authorities are particularly concerned about the high use of these products among the youth.

- ▼ **Soft Wine Segment:** In second-quarter 2020, net revenues in the wine segment fell 20.6% year on year to \$131 million due to reduced shipment volumes. The segment's revenues, net of excise taxes, slumped 21.3% to \$126 million. Reported wine shipment volumes dropped 20.2% to about 1.6 million cases. We note that the pandemic has hurt the company's wine business, which is likely to remain under pressure due to the restrictions on dining and gatherings. Thus, the company's on-premise and direct-to-consumer sales have been soft. Moreover, adjusted OCI in the category declined 21.1% to \$15 million, resulting from escalated reduced shipment volumes.

- ▼ **E-Vapor Category Looks Troubled:** Total estimated e-vapor volumes tumbled 14% in the second quarter. The company believes that growth in this category may be on hold over the next few years. This is because a number of products will be eliminated from the market if their PMTA's are not submitted or if they fail to get FDA's market authorization. In this regard, all manufacturers are needed to provide PMTA's by Sep 9.
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## Last Earnings Report

### Altria's Q2 Earnings Beat Estimates, Revenues Down Y/Y

Altria released second-quarter 2020 results, wherein adjusted earnings came in at \$1.09 per share, which rose 0.9% year over year and beat the Zacks Consensus Estimate of \$1.06. The uptick can be attributed to increased OCI in the smokeable and oral tobacco product segments along with a reduced number of outstanding shares. This was somewhat offset by a decrease in adjusted earnings from the company's equity investment in AB InBev (BUD - Research Report) .

Net revenues dropped 3.8% year over year to \$6,367 million. Revenues, after deducting excise taxes, slipped 2.5% to \$5,062 million. The consensus mark was \$5,074 million. Revenues were hurt by softness in the smokeable products segment.

### Segment Details

**Smokeable Products:** Net revenues in the category fell 4.3% year over year to \$5,603 million due to reduced shipment volumes, somewhat negated by higher pricing and a decrease in promotional investments. Revenues, net of excise taxes, dropped 2.8% year over year to \$4,338 million.

Reported domestic cigarette shipment volumes declined 8.8% year over year, mainly due to trade inventory movements. On an adjusted basis, however, smokeable products' domestic cigarette shipment volumes fell an estimated 2% and total domestic cigarette industry volumes remained flat. Meanwhile, Altria's reported cigar shipment volumes dropped 1.4%. During the quarter, total cigarette retail share declined 1 percentage point to 49%. Adjusted OCI in the segment improved 3.3% to \$2,508 million, owing to better pricing, lower costs and reduced promotional investments, partly countered by a decrease in shipment volumes. Adjusted OCI margin rose 3.4 percentage points to 57.8%.

**Oral Tobacco Products:** Net revenues in the segment improved 9.6% from the year-ago quarter to \$660 million, driven by greater pricing and shipment volumes. Revenues, net of excise taxes, increased 9.8% to \$626 million in the quarter.

Domestic shipment volumes for the segment grew 2.8% due to the industry's growth rate as well as trade inventory movements. This was partly offset by calendar differences as well as retail share losses, which in turn stemmed from an increase in oral nicotine pouch sales. On an adjusted basis, however, oral tobacco products shipment volumes climbed an estimated 0.5%. Total oral tobacco products' retail share went down 3 percentage points to 50%. Adjusted OCI rose 8.1% to \$456 million, owing to improved pricing and shipment volumes, somewhat negated by elevated costs related to the expansion of on! Adjusted OCI margin dropped 1.2 percentage points to 72.8%.

**Wine:** Net revenues fell 20.6% year on year to \$131 million due to reduced shipment volumes. The segment's revenues, net of excise taxes, slumped 21.3% to \$126 million. Reported wine shipment volumes dropped 20.2% to about 1.6 million cases. We note that the pandemic has hurt the company's wine business, which is likely to remain under pressure due to the restrictions on dining and gatherings. Thus, the company's on-premise and direct-to-consumer sales have been soft. Adjusted OCI in the category declined 21.1% to \$15 million, resulting from escalated reduced shipment volumes, somewhat cushioned by a decline in SG&A costs. Adjusted OCI margin remained flat at 11.9%.

### Other Updates & Guidance

At the end of the second quarter, the company had a cash balance of \$4.8 billion, which came down to \$3 billion after paying out dividends for July as well as taxes. The company remains focused on having a higher than normal cash balance to protect financial flexibility. Capital expenditures in 2020 are still envisioned in the range of \$200-\$250 million.

Management stated that Altria has incurred pre-tax charges worth \$50 million till now, related to COVID-19. These include costs related to PPE, increased pay and health screenings, among others. However, Altria noted that until now, its tobacco business has not witnessed any material disruption related to the government's restrictions on consumer movements and business operations. Most of the retail stores where the company's products are sold (like convenience stores) have been considered as essential businesses and remain open. Further, PM USA re-opened its IQOS boutiques in Richmond and Atlanta in June.

Talking of the IQOS, the FDA approved the marketing of IQOS and HeatSticks as Modified Risk Tobacco Products in July. Also, in the month, PM USA launched IQOS in Charlotte and expects to sell HeatSticks in more than 700 stores across Atlanta, Richmond and Charlotte by August-end. Additionally, PM USA intends to expand IQOS to four new markets, tie-up with trade retailers for its greater availability and expand the distribution of HeatSticks. With regards to on!, Helix submitted a PMTA with the FDA in May for all 35 on! SKUs. The PMTA is currently under review.

All said, Altria envisions adjusted earnings per share for 2020 in the range of \$4.21-\$4.38, indicating 0-4% growth from the year-ago period's \$4.21. The company now anticipates the domestic cigarette industry to drop 2-2.5% (on an adjusted basis) compared with a 4-6% decline expected earlier. This guidance is based on the better year-to-date industry trends and anticipations of continued buoyancy in the category. However, management will continue to analyze the scenario for adult tobacco consumers based on factors such as unemployment rates, purchasing behavior and disposable income, among others.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	-0.24%
EPS Surprise	2.83%
Quarterly EPS	1.09
Annual EPS (TTM)	4.28

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## Recent News

### FDA Approves IQOS to be Marketed as MRTP - Jul 8, 2020

The U.S. Food and Drug Administration approves IQOS's marketing as a modified risk tobacco product (MRTP). Markedly, Altria's subsidiary Philip Morris USA, under an exclusive licensing agreement with Philip Morris International, is engaged in the commercialization of IQOS in the United States.

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## Valuation

Altria shares are down 12.3% in the year-to-date period and is 0.0% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 13% and 5.4%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 2.3%, while the sector declined 3.8%.

The S&P 500 index is up 3.1% in the year-to-date period and 13.7% in the past year.

The stock is currently trading at 9.8X forward 12-month earnings, which compares to 10.53X for the Zacks sub-industry, 20.33X for the Zacks sector and 23.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.81X and as low as 7.05X, with a 5-year median of 15.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 10.31X forward 12-month earnings.

The table below shows summary valuation data for MO

Valuation Multiples - MO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.8	10.53	20.33	23.04
	5-Year High	22.81	21.23	22.37	23.04
	5-Year Low	7.05	9.96	16.63	15.25
	5-Year Median	15.83	15.7	19.62	17.6
P/S F12M	Current	3.94	3.29	9.66	3.93
	5-Year High	7.56	6.8	11.15	3.93
	5-Year Low	2.88	3.07	8.12	2.53
	5-Year Median	5.87	4.4	9.89	3.07
EV/EBITDA F12M	Current	9.01	9.41	35.62	13.9
	5-Year High	15.63	17.13	37.28	14.11
	5-Year Low	7.34	7.88	25.87	9.15
	5-Year Median	12.76	12.36	33.72	11.04

As of 08/31/2020

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## Industry Analysis Zacks Industry Rank: Top 18% (45 out of 251)



## Top Peers

Company (Ticker)	Rec	Rank
AnheuserBusch InBev SANV (BUD)	Outperform	2
Turning Point Brands, Inc. (TPB)	Outperform	1
British American Tobacco p.l.c. (BTI)	Neutral	3
Imperial Tobacco Group PLC (IMBBY)	Neutral	2
JAPAN TOB INC (JAPAY)	Neutral	3
Constellation Brands Inc (STZ)	Neutral	2
SchweitzerMauduit International, Inc. (SWM)	Neutral	3
Vector Group Ltd. (VGR)	Neutral	2

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

Industry Comparison Industry: Tobacco				Industry Peers		
	MO	X Industry	S&P 500	BTI	IMBBY	JAPAY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	B	A	B
Market Cap	81.29 B	1.30 B	23.72 B	77.33 B	15.89 B	32.96 B
# of Analysts	8	1	14	5	4	3
Dividend Yield	7.68%	5.80%	1.65%	8.10%	6.31%	2.72%
Value Score	C	-	-	B	A	B
Cash/Price	0.06	0.08	0.07	0.08	0.08	0.11
EV/EBITDA	45.78	8.33	13.28	8.88	NA	5.61
PEG F1	1.58	2.03	3.03	1.53	NA	NA
P/B	14.05	1.54	3.17	0.90	2.54	1.31
P/CF	10.06	8.51	12.87	6.31	3.28	6.74
P/E F1	10.08	10.88	21.63	7.91	5.24	12.73
P/S TTM	3.18	1.63	2.53	NA	NA	1.65
Earnings Yield	9.85%	8.62%	4.39%	12.64%	19.06%	7.86%
Debt/Equity	4.76	0.31	0.70	0.63	2.19	0.25
Cash Flow (\$/share)	4.35	3.33	6.93	5.35	5.11	1.38
Growth Score	B	-	-	C	A	B
Historical EPS Growth (3-5 Years)	10.81%	9.06%	10.41%	NA	NA	NA
Projected EPS Growth (F1/F0)	2.07%	2.70%	-4.75%	3.44%	-4.69%	-18.89%
Current Cash Flow Growth	4.57%	1.35%	5.22%	8.98%	-3.71%	-1.32%
Historical Cash Flow Growth (3-5 Years)	8.93%	4.91%	8.49%	12.83%	1.08%	NA
Current Ratio	0.75	1.28	1.35	0.89	0.75	1.28
Debt/Capital	82.66%	45.39%	42.92%	38.46%	68.66%	20.10%
Net Margin	-3.57%	3.75%	10.25%	NA	NA	15.98%
Return on Equity	109.11%	9.59%	14.66%	NA	NA	12.91%
Sales/Assets	0.50	0.82	0.50	NA	NA	0.40
Projected Sales Growth (F1/F0)	2.92%	-0.03%	-1.40%	-0.03%	-71.63%	-2.65%
Momentum Score	D	-	-	D	F	C
Daily Price Change	-0.43%	-1.18%	-0.82%	-1.66%	-0.30%	-0.54%
1-Week Price Change	1.08%	0.00%	2.59%	1.54%	1.72%	-1.27%
4-Week Price Change	6.66%	1.38%	3.55%	1.38%	0.78%	1.31%
12-Week Price Change	2.12%	-9.05%	-0.44%	-16.41%	-12.67%	-8.39%
52-Week Price Change	0.00%	-12.40%	2.80%	-3.79%	-35.40%	-11.52%
20-Day Average Volume (Shares)	6,649,111	207,750	1,839,384	3,175,432	156,882	66,437
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.12%	1.81%	0.20%	1.81%	1.26%	6.57%
EPS F1 Estimate 12-Week Change	1.50%	2.69%	3.87%	2.01%	1.83%	2.82%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	NA	NA	7.14%

Source: Zacks Investment Research

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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	D
VGM Score	C

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.