

Altria Group, Inc. (MO)

\$52.30 (As of 03/29/21)

Price Target (6-12 Months): **\$55.00**

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: B

Growth: C

Momentum: C

Summary

Altria has outpaced the industry in the past three months. The company is gaining from its pricing strategy, which boosted revenues and adjusted operating companies income (OCI) in smokeable and oral tobacco product units in fourth-quarter 2020. During the quarter, the top line grew and beat the Zacks Consensus Estimate. Altria continued to see strength in the oral tobacco products unit, which is poised to gain on expansions in IQOS and on! However, earnings were soft as gains from the abovementioned factors were offset by high corporate and financing costs, among other factors. Apart from this, the company's wine business is likely to remain under pressure amid the pandemic. Management said that it expects 2021 cigarette industry volumes to be affected by factors like adult smokers, unemployment rates and stay-at-home trends, among others.

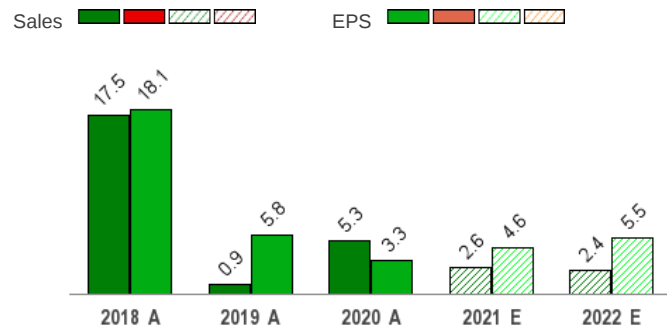
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$52.59 - \$35.02
20-Day Average Volume (Shares)	12,234,777
Market Cap	\$97.2 B
Year-To-Date Price Change	27.6%
Beta	0.59
Dividend / Dividend Yield	\$3.44 / 6.6%
Industry	Tobacco
Zacks Industry Rank	Top 29% (73 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	2.5%
EPS F1 Estimate 4-Week Change	-0.3%
Expected Report Date	04/29/2021
Earnings ESP	0.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,997 E	5,467 E	5,892 E	5,125 E	21,895 E
2021	4,972 E	5,406 E	5,846 E	5,169 E	21,385 E
2020	5,046 A	5,062 A	5,678 A	5,055 A	20,841 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.07 E	\$1.23 E	\$1.33 E	\$1.13 E	\$4.81 E
2021	\$1.04 E	\$1.16 E	\$1.27 E	\$1.09 E	\$4.56 E
2020	\$1.09 A	\$1.09 A	\$1.19 A	\$0.99 A	\$4.36 A

*Quarterly figures may not add up to annual.

P/E TTM	12.0
P/E F1	11.5
PEG F1	1.8
P/S TTM	3.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/29/2021. The report's text and the analyst-provided price target are as of 03/30/2021.

Overview

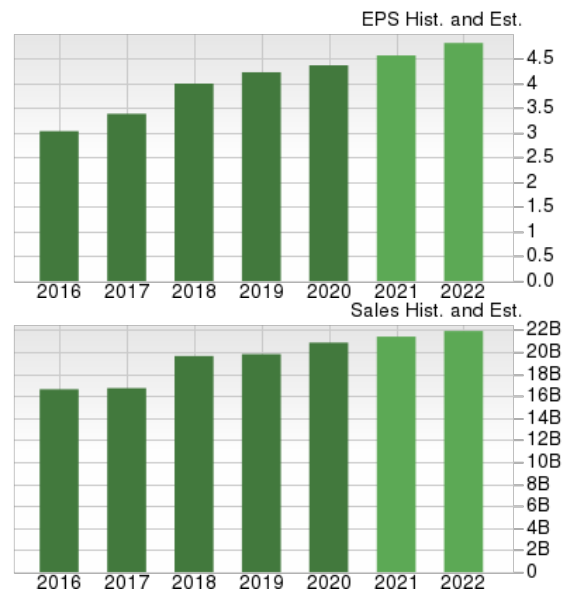
Altria Group has been evolving with the changing industry dynamics. Given the rising health consciousness and stern government regulations to discourage smoking, this tobacco behemoth has been moving beyond traditional cigarettes and expanding in the smokeless category. We note that revenues from the 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 (80% of 4Q20 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%):** 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 (3%):** 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.



Reasons To Buy:

▲ **Strong Pricing is an Upside:** Shares of Altria have increased 28.4% in the past three months compared with the industry's growth of 13.9%. Markedly, 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 fourth-quarter 2020, higher pricing boosted revenues and adjusted operating companies income (OCI) in both smokeable and oral tobacco product segments. In fact, increased adjusted OCI in the smokeable segment supported the company's bottom-line performance, which was otherwise battered by adjusted losses in the all other category, elevated corporate expenses and high financing costs, among other factors. Continuation of such trends is likely to aid Altria.

The company gains from strategic pricing for its smokeable and oral tobacco products. Moreover, it has been taking robust strides to expand in the oral tobacco products space.

▲ **Continued Resilience & Earnings View:** Altria's 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. Additionally, lack of social engagements and stay-at-home directives has facilitated increased tobacco consumption. For 2021, the company envisions adjusted earnings per share in the range of \$4.49-\$4.62, indicating growth of 3-6% from \$4.36 recorded in 2020.

▲ **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 fourth quarter of 2020, revenues in the company's Oral Tobacco products unit improved 4.5% from the year-ago quarter to \$632 million, driven by greater pricing. 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 2020, which is likely to bolster the business. In December 2020, the IQOS 3 device was approved for sale in the United States by the U.S. Food and Drug Administration (FDA). During the fourth quarter, Altria's subsidiary —PM USA— introduced IQOS devices for sale to certain convenience stores in Charlotte. Further, PM USA intends to expand IQOS and Marlboro HeatSticks to four new metro regions and surrounding areas in 2021. These efforts indicate that the company is undertaking prudent measures for expanding the availability of these devices across convenience store channels.

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 available in roughly 78,000 stores as of the end of the fourth quarter. This reflects growth of about 40% sequentially and more than five times the count from 2019-end. Moreover, on! has reached a retail share of 2.4 percentage points of the oral tobacco category in 2020. We note that Helix submitted premarket tobacco product applications (PMTA) with the FDA in May 2020 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.

▲ **Financial Flexibility:** Altria looks strong on the dividend payout front. The company currently has an annualized dividend rate of \$3.44 per share. Notably, the company maintains a long-term dividend payout ratio goal of about 80% of the adjusted EPS. We note that the company currently has a dividend payout of 78.9%, dividend yield of 6.6% and free cash flow yield of 8.4%. With an annual free cash flow return on investment of 25.3%, ahead of the industry's almost 18%, the dividend payment is likely to be sustainable. Additionally, a day prior to its fourth-quarter 2020 earnings release, management approved a new share buyback program worth \$2 billion, which is anticipated to conclude by Jun 30, 2022.

At the end of the fourth quarter, the company had a cash balance of \$4,945 million, while its current debt (current portion of long-term debt) stood at \$1,500 million. Altria remains focused on having a higher-than-normal cash balance to protect financial flexibility.

Reasons To Sell:

- ▼ **Impact of Macroeconomic Factors on Cigarette Industry Volumes:** Altria continues to assess the macroeconomic impacts of the pandemic on adult tobacco consumers (ATCs), such as stay-at-home trends, disposable income, unemployment rates and buying patterns. In fact, the company expects 2021 cigarette industry volumes to be most affected by factors like adult smokers, unemployment rates, cross-category movement, buying power, stay-at-home trends and the timing and breadth of the coronavirus vaccine, among others.

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.

Management expects 2021 cigarette industry volumes to be most affected by factors like adult smokers and unemployment rates, among other factors. Altria's wine segment has been seeing soft sales.

- ▼ **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 fact, the FDA also 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:** Altria's Wine segment has been largely hurt by the pandemic in 2020, including on-premise as well as direct-to-consumer sales. In fourth-quarter 2020, net revenues in the Wine segment declined 12.6% year on year to \$180 million due to reduced shipment volumes. The segment's revenues, net of excise taxes, declined 12.5% to \$175 million. Reported wine shipment volumes dropped 13.3% to about 2.1 million cases.

Further, adjusted OCI in the category slumped 87% to \$3 million, resulting from reduced shipment volumes and elevated costs. Adjusted OCI margin contracted 9.8 percentage points to 1.7%. The company's wine business is likely to remain under pressure due to the restrictions on dining and gatherings.

- ▼ **E-Vapor Category Looks Troubled:** On its fourth-quarter conference call, management said that the e-vapor category (which has served as the main smoker conversion driver for the last several years) declined in 2020. This was accountable to the fact that the category is still undergoing a transition period, with several pending FDA market determinations. Total e-vapor volumes dropped 10% in full-year 2020. While the e-vapor category is considered to be playing a major role in reducing the harmfulness from tobacco, its scope remains dependent on regulatory approvals, tax and legislative policy and innovation, to name a few factors.
-

Last Earnings Report

Altria's Q4 Earnings Miss Estimates, Revenues Grow Y/Y

Altria Group posted fourth-quarter 2020 results, wherein adjusted earnings came in at 99 cents per share, which dropped 2% year over year and fell short of the Zacks Consensus Estimate of \$1.01. This is accountable to adjusted losses in the all other category, reduced adjusted earnings from the company's equity investment in AB InBev, elevated income taxes, escalated corporate expenses and a rise in financing costs, somewhat compensated by increased adjusted operating companies income (OCI) in the smokeable products segment.

Net revenues advanced 4.9% year over year to \$6,304 million. Revenues, after deducting excise taxes, grew 5.3% to \$5,055 million. The consensus mark was pegged at \$4,933 million. Revenues were largely aided by increased revenues in the smokeable products segment, partly countered by reduced revenues in all other categories.

Quarter Ending 12/2020

Report Date	Jan 28, 2021
Sales Surprise	2.48%
EPS Surprise	-1.98%
Quarterly EPS	0.99
Annual EPS (TTM)	4.36

Segment Details

Smokeable Products: Net revenues in the category rose 7.9% year over year to \$5,567 million, courtesy of higher pricing, partly negated by increased promotional investments. Revenues, net of excise taxes, grew 9.1% year over year to \$4,355 million.

Reported domestic cigarette shipment volumes grew 3.1% year over year, thanks to trade inventory movements, somewhat countered by retail share losses. On adjusting for trade inventory movements, smokeable products' domestic cigarette shipment volumes fell an estimated 1%, whereas total domestic cigarette industry volumes grew 0.5%. Meanwhile, Altria's reported cigar shipment volumes improved 15%. During the quarter, total cigarette retail share declined 0.3 percentage point to 49.3%. Adjusted OCI in the segment improved 9.2% to \$2,388 million owing to better pricing and greater volumes, partly countered by higher promotional investments, increased resolution expenses and elevated costs. Adjusted OCI margin remained flat at 54.8%.

Oral Tobacco Products: Net revenues in the segment improved 4.5% from the year-ago quarter to \$632 million, driven by greater pricing, somewhat countered by elevated promotional investments. Revenues, net of excise taxes, increased 4.5% to \$600 million.

Domestic shipment volumes for the segment rose 0.5% mainly due to calendar differences and the industry's growth rate, among other factors, partly countered by trade inventory movements and retail share losses (owing to 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 2.4 percentage points to 49%. Adjusted OCI rose 4.3% to \$412 million owing to improved pricing, partly offset by greater promotional investments and higher costs. Adjusted OCI margin remained nearly flat at 68.7%.

Wine: This segment has been largely hurt by the pandemic in 2020, including on-premise as well as direct-to-consumer sales. Net revenues declined 12.6% year on year to \$180 million due to reduced shipment volumes. The segment's revenues, net of excise taxes, declined 12.5% to \$175 million. Reported wine shipment volumes dropped 13.3% to about 2.1 million cases. The company's wine business is likely to remain under pressure due to the restrictions on dining and gatherings. Adjusted OCI in the category slumped 87% to \$3 million, resulting from reduced shipment volumes and elevated costs. Adjusted OCI margin contracted 9.8 percentage points to 1.7%.

Other Updates & Guidance

A day prior to the earnings release, management approved a new share buyback program worth \$2 billion, which is anticipated to conclude by Jun 30, 2022. Further, the company currently has an annualized dividend rate of \$3.44 per share. Notably, the company maintains a long-term dividend payout ratio goal of about 80% of the adjusted EPS. Altria ended the quarter with cash and cash equivalents of \$4,945 million, long-term debt of \$27,971 million and total stockholders' equity of \$2,925 million.

Altria incurred pre-tax charges worth \$50 million in 2020, related to COVID-19. These include costs related to personal protective equipment, and increased pay and health screenings, among others. However, the company 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.

Notably, Altria has been benefiting from its non-combustible products. In December 2020, the IQOS 3 device was approved for sale in the United States by the U.S. Food and Drug Administration (FDA). During the fourth quarter, PM USA introduced IQOS devices for sale to certain convenience stores in Charlotte. Further, PM USA intends to expand IQOS and Marlboro HeatSticks to four new metro regions and surrounding areas in 2021. With regards to on!, Helix expanded its distribution by another 22,000 stores in the fourth quarter. on! is available in roughly 78,000 stores as of the end of the fourth quarter. This reflects growth of about 40% sequentially and more than five times the count from 2019-end. Moreover, on! has reached a retail share of 2.4 percentage points of the oral tobacco category in full-year 2020.

For 2021, the company envisions adjusted earnings per share in the range of \$4.49-\$4.62, indicating growth of 3-6% from \$4.36 recorded in 2020. Altria continues to assess the macroeconomic impacts of the pandemic on adult tobacco consumers (ATCs), such as stay-at-home trends, disposable income, unemployment rates and buying patterns. In fact, the company expects 2021 cigarette industry volumes to be most affected by factors like adult smokers, unemployment rates, cross-category movement, buying power, stay-at-home trends and the timing and breadth of the coronavirus vaccine, among others. That said, the company did not offer a cigarette industry guidance due to uncertainties surrounding the abovementioned aspects.

Recent News

Altria Declares Dividend – Feb 27, 2021

Altria's board declares regular quarterly dividend of 86 cents per share, payable on Apr 30, 2021 to shareholders in record as on Mar 25.

Altria Announces the Conversion of its Investment in JUUL – Nov 12, 2020

Altria announced that it has elected to convert the company's non voting shares in JUUL Labs, Inc., to voting shares. However Altria will not be immediately exercising its rights received upon conversion, such as the right to elect directors to JUUL's board. The company will continue to vote its JUUL shares as a passive investor.

Valuation

Altria shares are up 27.6% in the year-to-date period and 35.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 13.1% in the year-to-date period, while the Zacks Consumer Staples sector gained 1.8%. Over the past year, the Zacks sub-industry is up 25.1%, while the sector gained 29.8%.

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

The stock is currently trading at 11.28X forward 12-month earnings, which compares to 11.48X for the Zacks sub-industry, 20.39X for the Zacks sector and 22.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.81X and as low as 7.05X, with a 5-year median of 13.56X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 11.86X forward 12-month earnings.

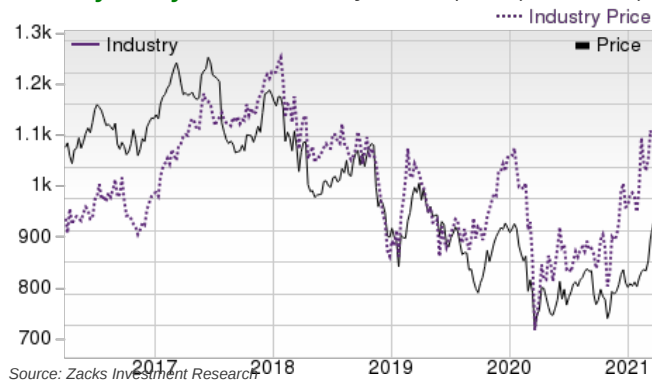
The table below shows summary valuation data for MO

Valuation Multiples - MO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.28	11.48	20.39	22.44
	5-Year High	22.81	21.23	22.4	23.83
	5-Year Low	7.05	9.15	16.52	15.3
	5-Year Median	13.56	13.59	19.53	17.9
P/S F12M	Current	4.52	3.63	10.8	4.59
	5-Year High	7.56	6.8	11.96	4.59
	5-Year Low	2.88	2.87	8.6	3.21
	5-Year Median	5.41	3.86	10.47	3.69
EV/EBITDA F12M	Current	9.96	9.77	38.88	15.81
	5-Year High	15.63	17.19	38.88	16.22
	5-Year Low	7.34	7.52	26.67	10.79
	5-Year Median	11.76	10.39	35.09	13.5

As of 03/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
British American Tobacco p.l.c. (BTI)	Neutral	3
AnheuserBusch InBev SANV (BUD)	Neutral	3
Imperial Tobacco Group PLC (IMBBY)	Neutral	3
JAPAN TOB INC (JAPAY)	Neutral	3
Philip Morris International Inc. (PM)	Neutral	3
Constellation Brands Inc (STZ)	Neutral	2
Turning Point Brands, Inc. (TPB)	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	JAPAY	PM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	A	B
Market Cap	97.21 B	1.84 B	29.36 B	90.71 B	34.77 B	141.81 B
# of Analysts	8	1.5	13	5	3	8
Dividend Yield	6.58%	5.24%	1.34%	7.48%	5.25%	5.28%
Value Score	B	-	-	A	A	B
Cash/Price	0.05	0.05	0.06	0.05	0.15	0.05
EV/EBITDA	14.39	10.55	16.54	9.03	NA	12.96
PEG F1	1.77	1.96	2.39	1.96	NA	1.83
P/B	33.23	2.56	3.96	1.12	1.42	NA
P/CF	11.61	11.52	16.53	8.03	7.56	15.65
P/E F1	11.33	12.51	21.88	8.73	12.51	15.23
P/S TTM	3.72	1.86	3.37	NA	1.77	1.86
Earnings Yield	8.72%	7.26%	4.51%	11.46%	7.96%	6.56%
Debt/Equity	9.56	0.39	0.66	0.63	0.31	-2.65
Cash Flow (\$/share)	4.51	4.47	6.78	4.93	1.30	5.81
Growth Score	C	-	-	C	A	A
Historical EPS Growth (3-5 Years)	10.40%	5.42%	9.36%	NA	-6.73%	5.42%
Projected EPS Growth (F1/F0)	4.56%	4.37%	15.07%	6.53%	-4.47%	15.57%
Current Cash Flow Growth	3.12%	-0.97%	0.44%	-0.97%	-5.93%	0.01%
Historical Cash Flow Growth (3-5 Years)	7.89%	4.86%	7.37%	11.37%	0.61%	3.55%
Current Ratio	0.79	1.51	1.39	0.88	1.51	1.10
Debt/Capital	90.54%	43.21%	41.42%	38.81%	23.92%	NA
Net Margin	17.08%	7.80%	10.59%	NA	14.79%	10.59%
Return on Equity	174.60%	9.60%	14.86%	NA	12.15%	-76.72%
Sales/Assets	0.53	0.86	0.50	NA	0.40	1.89
Projected Sales Growth (F1/F0)	2.61%	2.82%	7.28%	6.64%	2.49%	9.27%
Momentum Score	C	-	-	F	F	F
Daily Price Change	-0.38%	-0.19%	-0.42%	0.56%	1.34%	0.45%
1-Week Price Change	3.86%	0.12%	2.12%	0.31%	-0.31%	1.49%
4-Week Price Change	17.42%	5.85%	3.83%	10.61%	8.77%	7.11%
12-Week Price Change	28.06%	20.75%	11.63%	5.07%	-1.11%	11.64%
52-Week Price Change	40.18%	39.35%	59.04%	19.89%	3.05%	25.42%
20-Day Average Volume (Shares)	12,234,777	489,302	2,357,830	2,938,416	62,949	5,148,191
EPS F1 Estimate 1-Week Change	-0.22%	-0.16%	0.00%	-0.74%	-0.84%	-0.10%
EPS F1 Estimate 4-Week Change	-0.27%	-0.05%	0.00%	-0.48%	-9.44%	-0.10%
EPS F1 Estimate 12-Week Change	-0.14%	3.99%	2.19%	-0.26%	-9.96%	3.74%
EPS Q1 Estimate Monthly Change	0.02%	0.02%	0.00%	NA	NA	-0.15%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.