

## Match Group (MTCH)

**\$153.57** (As of 01/12/21)

Price Target (6-12 Months): **\$131.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 01/12/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: B

## Summary

Match Group's dependence on Tinder to drive its top line is a major concern. Moreover, Tinder is labelled as a sexting/hook up app and could face hurdles, while trying to expand into other parts of the world. This may not bode well for the company's top line. Further, a highly leveraged balance sheet and intensifying competition from other dating apps including the likes of Facebook Dating are persistent overhangs. Shares have underperformed the industry in the past year. Nonetheless, Match Group is well-poised to benefit from increasing activity and engagement seen across its other apps like Hinge, Meetic, Pairs and OkCupid since the COVID-19 outbreak, especially across western markets. The company is also seeing rebound in propensity to pay, driven by robust uptake of video-enabled services to boost engagement amid the COVID-19 crisis.

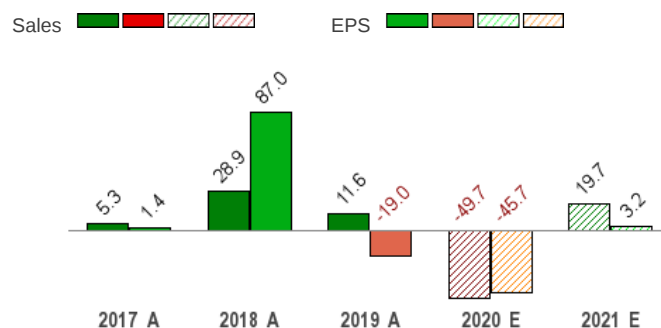
## Price, Consensus & Surprise



## Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$159.85 - \$87.56</b>         |
| 20-Day Average Volume (Shares) | <b>2,019,070</b>                  |
| Market Cap                     | <b>\$40.8 B</b>                   |
| Year-To-Date Price Change      | <b>1.6%</b>                       |
| Beta                           | <b>1.20</b>                       |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>              |
| Industry                       | <b>Internet - Commerce</b>        |
| Zacks Industry Rank            | <b>Bottom 9% (229 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>-3.5%</b>      |
| Last Sales Surprise           | <b>5.9%</b>       |
| EPS F1 Estimate 4-Week Change | <b>-0.8%</b>      |
| Expected Report Date          | <b>02/03/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>68.6</b>       |
| P/E F1                        | <b>60.5</b>       |
| PEG F1                        | <b>4.0</b>        |
| P/S TTM                       | <b>11.2</b>       |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 651 E   | 691 E   | 746 E   | 767 E   | 2,864 E |
| 2020 | 1,229 A | 555 A   | 640 A   | 653 E   | 2,393 E |
| 2019 | 1,106 A | 1,187 A | 1,247 A | 1,218 A | 4,757 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.50 E | \$0.60 E | \$0.70 E | \$0.73 E | \$2.54 E |
| 2020 | \$0.01 A | \$0.60 A | \$0.55 A | \$0.54 E | \$2.46 E |
| 2019 | \$0.91 A | \$1.19 A | \$1.35 A | \$1.08 A | \$4.53 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/12/2021. The reports text is as of 01/13/2021.

## Overview

Match Group, Inc. is the world's foremost provider of dating products and operates a portfolio of more than 45 brands. Its biggest and best known brands are Tinder, Match.com, PlentyOfFish, Meetic and OkCupid. The Dallas, TX-based company offers dating products in 42 languages in more than 190 countries.

The company is currently enjoying strong growth, driven by robust momentum at Tinder and solid performances from Meetic, Match, Pairs as well as PlentyOfFish.

Tinder which was launched in 2012 and is the world's #1 downloaded as well as top earning dating app. Tinder reflects the key catalyst for the company's year-over-year revenue growth. Revenues from Tinder direct grew 43% year over year in 2019 and came in at \$1.2 billion. Notably, in first quarter of 2020, Tinder added 1 million average subscribers.

Match was launched in 1995 and helps in generating the online dating category. Its unique features involve searching profiles, receive algorithmic matches and attend live events, promoted by Match, with other Subscribers.

PlentyOfFish launched in 2003 and was acquired in October 2015. Its unique features are also the capability to both search profiles and receive algorithmic matches.

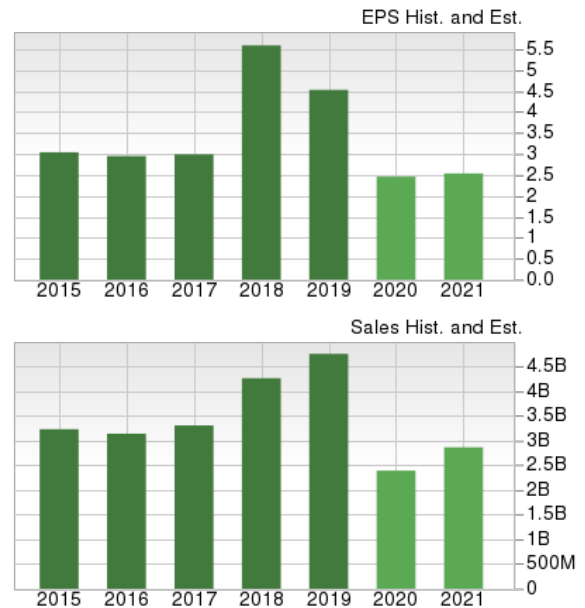
Based in France, Meetic is a leading European online dating brand and was launched in 2001. It also has unique features to search profiles, receive algorithmic matches, and attend live events.

OkCupid launched in 2004 and attracts users through a mathematical and Q&A approach to the online dating category.

One of the largest brand, OurTime is a community of singles above the age 50 of any dating product.

Launched in 2012, Hinge was acquired by Match in December 2018. It is a mobile-only experience that focuses on users with a greater level of aim to enter into a relationship.

Match Group became a public company in 2015. The company generated revenues of \$2.1 billion in 2019. North America contributed 51.1% to total direct revenues, while international contributed 48.9%.



Source: Zacks Investment Research

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## Reasons To Sell:

- ▼ Match Group currently faces stiff competition from other big and small players in the dating industry, with a constant stream of new products and entrants. Additionally, within the dating industry, cost for users to switch between the products is usually very low and consumers have a tendency to try new ways to connect with people. Consequently, new entrants, new products and business models are emerging at a high rate which may pose a huge threat to Match Group's profitability.
- ▼ Facebook poses a potential threat on Match Group. Due of its sheer size, anything Facebook does is rightly viewed as a potential threat to anyone currently occupying the space. Facebook's more than 3 billion user count dwarfs Match Group's 9.9 million average subscribers, suggesting that if Facebook Dating (launched in the United States on Sep 5, 2019) gains traction, Match Group could witness widespread defections and consequently its earnings. If successful, this can be a huge hindrance to Match Group to retain its customers. Although Match Group has started distributing ads on other websites, we believe that Facebook continues to have a significant competitive edge due to its scale and diversified product offering. Weaker-than-expected advertising revenue growth trends might dent the company's top-line, going forward.
- ▼ Tinder is the major source of revenues for Match Group. Tinder, launched in 2012, is a location-based dating service. It is basically labelled as more of a hook up/sexting app. Although, over the past few days, Tinder has updated its app to include more gender options like transgender. Per media reports, the update is available only in the United States, the U.K and Canada and is aimed at making the service more inclusive. Reports further add that Tinder is likely to face hurdles when it tries to roll out this feature in other "not so liberal parts" of the world.
- ▼ The company has a highly leveraged balance sheet. As of Sep 30, 2020, Match Group had net debt balance of \$3.1 billion. Moreover, total debt to total capital stands at 169.4% compared with industry's figure of 15.1%. Further, times interest earned of 2.2X is much lower than the industry's figure of 21.6X. The high debt level can not only jeopardize its ability to buy back shares but also pursue accretive acquisitions.

Stiff competition from Facebook, overdependence on Tinder for revenue generation and a leveraged balance sheet are major concerns.

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## Risks

- Online dating has been gaining traction because of the rising number of singles globally. According to reports, the marriage rate in the U.S. has decreased 40% in the last 25 years. This has led to a significant rise in the number of people looking for a match. Per Verified Market Research data, online dating services market is projected to hit \$9.39 billion by 2026, witnessing a CAGR of 4.62% between 2019 and 2026. Match group is already a trusted dating site with over two decades of presence in the industry. Consequently, the statistic bodes well for the company and will help Match group to garner additional revenues.
  - The company is considered to have pioneered the concept of online dating, which is why it enjoys a first mover's advantage in this market. Match Group has been benefiting from increasing subscriber addition in the form of membership subscriptions. Online dating has been expanding, as users from more demographics join the fray. The company's subscribers continue to grow at a significant pace driven by new features and tools that improve engagement. Tinder average subscriber increased 16% year over year in the third quarter of 2020 and came in at 6.6 million. Most of Match Group's users connect from mobile devices, where conversion to paid members is also higher. This momentum bodes well for top-line growth, going forward.
  - Match Group has been reaping profits for the past three years and recording top-line expansion as well. The company is currently enjoying strong growth, driven by robust momentum at Tinder and solid performances from Meetic, Match as well as PlentyOfFish. As of Sep 30, 2020, Match group has 10.8 million subscribers worldwide and more than 6 million subscribers use Tinder — the most profitable segment of Match Groups business for advertising (In fact, Tinder became the highest grossing app in Apple's App Store in 2019, edging out Netflix and Candy Crush). With a combination of free features — which include advertising — and paid subscription-based premium services and options, Match Group took in \$2.1 billion in revenues in 2019, up 19% year over year.
  - Tinder, the world's #1 downloaded and top earning dating app, is one of the major growth drivers for Match Group. Moreover, gender diversification is an attraction for Tinder users, as the app includes more gender options like transgender. Per media reports, the gender options update was rolled out to make the service more inclusive. Last year, Tinder launched a web-based version of its popular mobile dating service called Tinder Online. Tinder also updated its app, which will allow its users to link their profiles with their respective Instagram profiles. Notably, Tinder is the cash cow of Match Group. Revenues from Tinder direct soared 15% year over year in third-quarter 2020. The company has a presence in about 196 countries with reportedly over 50 million users (who spend an average of 90 minutes on the app and keep coming back at least 11 times a day). Moreover, Match Group has introduced Tinder Lite, with an aim to expand international presence. The company also launched a credit card payment option on the Android version of Tinder. We believe that such initiatives can be strong growth drivers for if Match Group decides to monetize the same ever.
  - Of all places, India deserves special mention regarding user growth. India, the world's second most populated country, offers tremendous potential. It has more than 1.3 billion people, of which, only a little over 560 million use Internet, per Statista. Despite low internet penetration, India is already one of the largest markets for the company just after the United States, given its extreme popularity. Tinder was launched in the country in 2013, and with its rapidly growing mobile-friendly demographic, the app saw a 400% increase in downloads in the country in 2015. Moreover, India holds the biggest market in Asia in regard to this dating app. Tinder stated in 2016 that it gets 7.5 million daily swipes in India. This bodes well for Match Group. A burgeoning well-educated middle class, increasing spending power and rapid adoption of smartphones will boost Match Group's prospects in the country.
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## Last Earnings Report

### Match Group Q3 Earnings Decline Y/Y, Tinder Drives Top Line Growth

Match Group reported third-quarter 2020 earnings of 45 cents per share, which declined 13% from year-ago quarter's figure.

Nevertheless, revenues of \$639.8 million increased 18% year over year.

Continued momentum at Tinder and solid performances of Hinge, Pairs and OkCupid has driven top-line growth. Excluding the effect of foreign exchange, the top line rose 18% year over year to \$636.7 million, driven by rise in average subscriber base.

Notably, activity and engagement across all brands has been high since the COVID-19 outbreak, especially across western markets.

#### Quarter Details

Average subscriber base increased 12% to 10.8 million and average revenues per user (ARPU) were up 4% year over year to 62 cents.

North America subscriber base climbed 9% to 5.1 million, while International advanced 16% to 5.7 million. Improvement in subscriber base in North America was driven by Tinder, Chispa, Hinge, and BLK. Internationally, growth was driven by Tinder as well as Pairs and Meetic apps.

North America ARPU increased 8% to 66 cents, while International ARPU increased 1% to 58 cents. North America ARPU was driven by increased purchases of à la carte features at Tinder, Plentyoffish and Hinge. Also, streamlining of pricing for Hinge app added to North America ARPU growth.

The company continues to expand operations across international markets. The company rolled out Tinder Platinum (test version) subscription service to 10 countries. It expects to launch the subscription service to more countries in the fourth quarter of 2020. The company recently unveiled Upward, which is a Christian community-focused app.

Moreover, robust Tinder average subscriber increased 16% year over year came to 6.6 million that contributed to the quarterly results. However, Tinder APRU dropped 1% in the third quarter.

Direct revenues from Tinder increased 15% year over year. The company launched Swipe Night series across 24 countries in September 2020 and relaunched the feature in the United States. The Swipe Night feature aided Tinder boost daily usage, with viewership hitting 15 million driven by traction in the Swipe Night series.

Direct revenues from non-Tinder brands collectively increased 23% on a year-over-year basis. Non-Tinder brands witnessed 13% growth in ARPU as well as 7% increase in average subscribers and contribution from non-subscriber one-to-many video revenues.

Markedly, Hinge's ARPU was up more than 100% on a year-over-year basis in the third quarter. The launch of two à la carte features boosted Hinge ARPU growth.

Moreover, Match Group owned dating app — Plenty of Fish — saw 5.5 million users for its one-to-many live streaming service, which encourages members to practice social distancing while dating amid the coronavirus pandemic.

Adjusted EBITDA was \$249.2 million, up 21% year over year. Adjusted EBITDA margin expanded 110 basis points (bps) year over year to 39%.

Total operating costs and expenses, as a percentage of revenues, expanded 100 basis points (bps) on a year-over-year basis and came in at 69% in the reported quarter. This was driven by increases in selling and marketing expenses, and general and administrative expenses, partly offset by reduced spend on travel.

Operating income advanced 14.2% from the year-ago quarter's tally to \$200.2 million. Operating margin contracted 100 bps to 31%.

#### Balance Sheet & Cash Flow

As of Sep 30, 2020, Match Group had cash and cash equivalent balance of \$399 million compared with \$129.3 million as of Jun 30, 2020. As of Sep 30, 2020, the company had long-term debt of \$3.52 billion compared with \$3.53 billion as of Jun 30, 2020.

As of Sep 30, 2020, the company also reported \$1.7 billion of exchangeable senior notes. The company had \$750 million under its revolving credit facility as of Sep 30, 2020. The amount was undrawn as of Sep 30.

For nine months ended Sep 30, 2020, the company generated operating cash flow of \$518.9 million compared with \$468.3 million in the nine-month period ended Sep 30, 2019. For nine months ended Sep 30, 2020, free cash flow was \$486.5 million compared with \$438 million in the nine-month period ended Sep 30, 2019.

#### Guidance

Match Group expects fourth-quarter revenues of \$640 million to \$650 million. Adjusted EBITDA is anticipated in the range of \$235-\$245 million.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 04, 2020 |
| Sales Surprise   | 5.85%        |
| EPS Surprise     | -3.51%       |
| Quarterly EPS    | 0.55         |
| Annual EPS (TTM) | 2.24         |

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## Recent News

On Dec 7, Match Group collaborated with RAINN to improve sexual misconduct reporting and response across all its dating apps. RAINN is a well-known organization that works towards curbing of sexual violence. This is likely to help improve the company's brand value.

On Jul 1, Match Group and IAC announced the successful completion of the separation of Match Group from the remaining businesses of IAC.

On Jun 25, Match Group and IAC announced that all proposals required to complete the separation of Match Group from the remaining businesses of IAC have been approved by their respective stockholders.

On Jun 12, Match Group announced an agreement with Bumble to settle all litigations between the companies. However, details of the deal have not been disclosed.

Per a MarketWatch report on Jun 9, IAC/InterActiveCorp reached an agreement to sell shares of its Class M common stock to third-party investors as part of its pending separation with Match Group.

Per a Bloomberg report on Jun 8, Match Group decided to retain the race-based filter across some of its dating apps to empower minority groups.

On May 12, Match Group announced its decision to sell off \$500 million aggregate principal amount of 4.625% senior notes due in 2028 in a private offering. The Offering is expected to close on May 19, 2020.

On Mar 19, Match Group owned dating app – Plenty of Fish – rolled out a free live streaming feature called LIVE! to encourage members to practice social distancing while dating amid the coronavirus outbreak.

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## Valuation

Match Group shares are up 56.8% in the past six-month period but down 43.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.6% but Zacks Retail-Wholesale sector is up 11% in the past six-month period. In the past year, the Zacks sub-industry and sector rose 40.9% and 32.7%, respectively.

The S&P 500 index is up 19.6% in the past six-month period and 17.6% in the past year.

The stock is currently trading at 14.27X forward 12-month sales, which compares to 4.45X for the Zacks sub-industry, 1.32X for the Zacks sector and 4.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.62X and as low as 0.97X, with a 5-year median of 3.07X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$131 price target reflects 12.17X forward 12-month sales.

The table below shows summary valuation data for MTCH

| Valuation Multiples - MTCH |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 14.27 | 4.45         | 1.32   | 4.52    |
|                            | 5-Year High   | 14.62 | 5.97         | 1.33   | 4.52    |
|                            | 5-Year Low    | 0.97  | 3.19         | 0.84   | 3.2     |
|                            | 5-Year Median | 3.07  | 4.67         | 1.02   | 3.68    |
| EV/Sales TTM               | Current       | 8.73  | 5.53         | 1.5    | 4.5     |
|                            | 5-Year High   | 8.73  | 8.5          | 1.61   | 4.5     |
|                            | 5-Year Low    | 1.09  | 3.93         | 0.90   | 2.62    |
|                            | 5-Year Median | 3.39  | 6.31         | 1.19   | 3.59    |

As of 01/12/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)           | Rec     | Rank |
|----------------------------|---------|------|
| Amazon.com, Inc. (AMZN)    | Neutral | 3    |
| Facebook, Inc. (FB)        | Neutral | 2    |
| Spark Networks, Inc. (LOV) | Neutral | 3    |
| Pinterest, Inc. (PINS)     | Neutral | 3    |
| Sina Corporation (SINA)    | Neutral | 3    |
| Snap Inc. (SNAP)           | Neutral | 2    |
| Twitter, Inc. (TWTR)       | Neutral | 2    |
| Weibo Corporation (WB)     | Neutral | 3    |

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

| Industry Comparison Industry: Internet - Commerce |              |            |           | Industry Peers |            |            |
|---------------------------------------------------|--------------|------------|-----------|----------------|------------|------------|
|                                                   | MTCH         | X Industry | S&P 500   | FB             | LOV        | SNAP       |
| Zacks Recommendation (Long Term)                  | Underperform | -          | -         | Neutral        | Neutral    | Neutral    |
| Zacks Rank (Short Term)                           | 5            | -          | -         | 2              | 3          | 2          |
| VGM Score                                         | C            | -          | -         | B              | B          | C          |
| Market Cap                                        | 40.85 B      | 4.06 B     | 26.90 B   | 715.18 B       | 7.43 M     | 84.11 B    |
| # of Analysts                                     | 5            | 3.5        | 13        | 15             | 1          | 10         |
| Dividend Yield                                    | 0.00%        | 0.00%      | 1.41%     | 0.00%          | 0.00%      | 0.00%      |
| Value Score                                       | F            | -          | -         | C              | B          | F          |
| Cash/Price                                        | 0.01         | 0.09       | 0.06      | 0.07           | 1.84       | 0.03       |
| EV/EBITDA                                         | 52.82        | 11.76      | 15.05     | 21.59          | NA         | -91.93     |
| PEG F1                                            | 4.13         | 2.51       | 2.62      | 1.29           | NA         | NA         |
| P/B                                               | NA           | 7.03       | 3.76      | 6.07           | 0.05       | 38.25      |
| P/CF                                              | 21.02        | 24.05      | 14.67     | 29.56          | NA         | NA         |
| P/E F1                                            | 62.59        | 50.53      | 20.85     | 23.84          | 15.83      | 263.79     |
| P/S TTM                                           | 11.22        | 3.53       | 3.00      | 9.06           | NA         | 39.01      |
| Earnings Yield                                    | 1.65%        | 1.44%      | 4.69%     | 4.19%          | 6.32%      | 0.37%      |
| Debt/Equity                                       | -2.44        | 0.10       | 0.70      | 0.00           | 0.54       | 0.75       |
| Cash Flow (\$/share)                              | 7.31         | 0.40       | 6.93      | 8.49           | -6.42      | -0.66      |
| Growth Score                                      | A            | -          | -         | B              | C          | A          |
| Historical EPS Growth (3-5 Years)                 | 19.94%       | 5.29%      | 9.72%     | 36.42%         | NA         | NA         |
| Projected EPS Growth (F1/F0)                      | 3.13%        | 33.38%     | 12.36%    | 12.14%         | 3,500.00%  | 332.61%    |
| Current Cash Flow Growth                          | -13.51%      | 1.34%      | 5.22%     | -8.33%         | -1,635.41% | -20.24%    |
| Historical Cash Flow Growth (3-5 Years)           | 14.47%       | 11.28%     | 8.37%     | 38.21%         | NA         | NA         |
| Current Ratio                                     | 1.51         | 1.67       | 1.38      | 5.51           | 0.29       | 5.43       |
| Debt/Capital                                      | NA%          | 16.23%     | 41.97%    | 0.00%          | 35.12%     | 42.87%     |
| Net Margin                                        | 2.43%        | -0.61%     | 10.44%    | 32.00%         | NA         | -49.74%    |
| Return on Equity                                  | 32.15%       | 4.12%      | 15.37%    | 23.27%         | NA         | -48.53%    |
| Sales/Assets                                      | 0.67         | 0.92       | 0.50      | 0.57           | NA         | 0.49       |
| Projected Sales Growth (F1/F0)                    | 20.42%       | 18.60%     | 6.00%     | 24.60%         | 2.92%      | 41.05%     |
| Momentum Score                                    | B            | -          | -         | A              | F          | B          |
| Daily Price Change                                | 1.10%        | 0.78%      | 0.57%     | -2.24%         | 0.53%      | 3.81%      |
| 1-Week Price Change                               | 0.40%        | 3.60%      | 2.23%     | -2.05%         | 3.01%      | 5.31%      |
| 4-Week Price Change                               | 1.81%        | 8.03%      | 3.70%     | -8.88%         | 22.58%     | 9.93%      |
| 12-Week Price Change                              | 33.70%       | 14.09%     | 14.39%    | -6.16%         | 31.94%     | 98.42%     |
| 52-Week Price Change                              | -43.25%      | 56.26%     | 7.96%     | 14.62%         | 18.50%     | 213.79%    |
| 20-Day Average Volume (Shares)                    | 2,019,070    | 272,227    | 1,754,762 | 15,938,746     | 131,995    | 16,786,496 |
| EPS F1 Estimate 1-Week Change                     | -0.77%       | 0.00%      | 0.00%     | 0.21%          | 0.00%      | 2.46%      |
| EPS F1 Estimate 4-Week Change                     | -0.77%       | 0.00%      | 0.06%     | 0.49%          | 0.00%      | 3.06%      |
| EPS F1 Estimate 12-Week Change                    | -13.64%      | -2.70%     | 2.55%     | 0.12%          | 0.00%      | 16.58%     |
| EPS Q1 Estimate Monthly Change                    | 2.88%        | 0.00%      | 0.00%     | 0.16%          | NA         | 1.75%      |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | F |
| Growth Score   | A |
| Momentum Score | B |
| VGM Score      | C |

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

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## Disclosures

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## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.