

## Realty Income Corp. (O)

**\$62.03** (As of 08/31/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

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

(Since: 01/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

### Summary

Realty Income came up with a better-than-expected performance in second-quarter 2020. The company's diversified and high-quality real estate portfolio, mainly leased to tenants offering non-discretionary and/or low price point goods or services, witnessed a healthy occupancy level of 98.5% at the end of the quarter. It collected 90.7% of contractual rent due for July from the top 20 tenants and 100% contractual rent for the month from its investment-grade tenants. With strong liquidity and balance-sheet position, it seems well-poised to sail through the current blues. Its shares have lost value, narrower than the industry's decline in the past year. Yet, low customer traffic resulting from government-mandated closures and social-distancing requirements, are impacting a number of the company's tenants and this remains a headwind.

### Price, Consensus & Surprise



### Data Overview

|                                |                                       |
|--------------------------------|---------------------------------------|
| 52-Week High-Low               | <b>\$84.92 - \$38.00</b>              |
| 20-Day Average Volume (Shares) | <b>1,912,749</b>                      |
| Market Cap                     | <b>\$21.4 B</b>                       |
| Year-To-Date Price Change      | <b>-15.8%</b>                         |
| Beta                           | <b>0.61</b>                           |
| Dividend / Dividend Yield      | <b>\$2.80 / 4.5%</b>                  |
| Industry                       | <b>REIT and Equity Trust - Retail</b> |
| Zacks Industry Rank            | <b>Bottom 4% (240 out of 251)</b>     |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>13.2%</b>      |
| Last Sales Surprise           | <b>5.3%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.4%</b>       |
| Expected Report Date          | <b>11/02/2020</b> |
| Earnings ESP                  | <b>2.4%</b>       |
| P/E TTM                       | <b>18.1</b>       |
| P/E F1                        | <b>18.7</b>       |
| PEG F1                        | <b>4.2</b>        |
| P/S TTM                       | <b>13.4</b>       |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 426 E | 435 E | 444 E | 453 E | 1,724 E |
| 2020 | 414 A | 415 A | 402 E | 411 E | 1,625 E |
| 2019 | 354 A | 365 A | 374 A | 398 A | 1,492 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.85 E | \$0.86 E | \$0.87 E | \$0.88 E | \$3.47 E |
| 2020 | \$0.88 A | \$0.86 A | \$0.82 E | \$0.84 E | \$3.31 E |
| 2019 | \$0.82 A | \$0.82 A | \$0.83 A | \$0.86 A | \$3.32 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/31/2020. The reports text is as of 09/01/2020.

## Overview

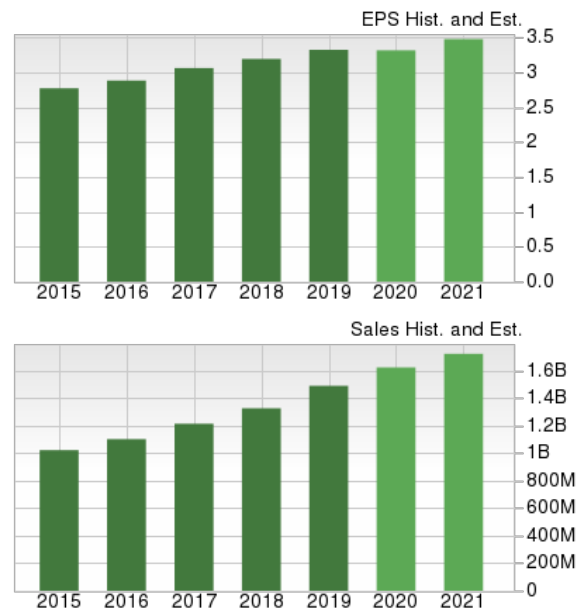
Realty Income, founded in 1969 and headquartered in San Diego, CA, is engaged in the acquisition and management of freestanding commercial properties which reap rental revenue under long-term net lease agreements. This S&P 500 Index member is structured as a real estate investment trust, or REIT, and has earned its reputation of "The Monthly Dividend Company" for being a payer of dividends on a monthly basis.

As of Jun 30, 2020, Realty Income's portfolio comprised 6,541 properties, located across 49 states in the United States, Puerto Rico and the U.K. These properties are leased to roughly 600 tenants, belonging to 50 separate industries. As of the same date, Realty Income's retail properties generated 83.9% of rental revenues while industrial properties contributed 10.9%. In addition, office assets reaped 3.5% of rental revenues and the remaining 1.7% was produced by agricultural assets.

In May 2019, Realty Income announced closing the £429-million sale-leaseback transaction with Sainsbury's. Particularly, the move, which marks the company's first international real estate acquisition, involved gaining of 12 properties in the U.K. under long-term net lease agreements with Sainsbury's. Notably, Sainsbury's is one of the top operators in the grocery industry. Executed at a 5.31% GBP initial cap rate, the sale-leaseback transaction involves annual rent increases over the duration of the lease term, and carries a weighted average lease term of around 15 years.

In December 2019, Realty Income completed the acquisition of 444 single-tenant retail properties from CIM Real Estate Finance Trust, Inc. for \$1.2 billion. This represented part of the previously announced transaction with CIM Real Estate Finance Trust, Inc. In January 2020, the company acquired the remaining seven properties of the transaction for around \$26 million.

*Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



Source: Zacks Investment Research

## Reasons To Buy:

- ▲ Realty Income's portfolio is well diversified with respect to tenant, industry, geography and property type. The company's properties are located in 49 states of the United States, Puerto Rico and the U.K. In addition, tenants operate in 50 different industries and the weighted average remaining lease term is approximately nine years. Apart from these, besides retail properties, the company's portfolio comprises industrial, office as well as agricultural properties. This diversification helps it mitigate risk associated with a particular industry, geography or asset type.
- ▲ The company derives 95% of its annualized retail rental revenues from tenants with a service, non-discretionary and/or low price point component to their business. Such businesses are less susceptible to economic recessions as well as competition from Internet retailing. Moreover, the company targets industrial properties leased to industry leaders, mainly investment grade rated companies, providing more reliable streams of income. These efforts boost the stability of the rental revenue and generate predictable cash flows. Through Jul 31, the company collected 86.5% of contractual rent for the second quarter and 91.5% of contractual rent for July across the total portfolio. Further, it collected 90.7% of contractual rent due for July from the top 20 tenants and 100% of contractual rent for the month from its investment-grade tenants.
- ▲ The company's top four industries (around 37% of annualized rent) — convenience stores (accounting for 12% rental revenues for second-quarter 2020), drug stores (9.1%), dollar stores (8.1%) and grocery stores (8%) — sell 'essential' goods and continued to thrive even during the pandemic. Resultantly, the company received 99.7% of rent due from tenants in these industries for the second quarter as well as in July.
- ▲ Realty Income's solid underlying real estate quality and prudent underwriting at acquisition has helped the company maintain high occupancy levels consistently. In fact, since 1996, the company's occupancy level has never been below 96%. Additionally, as of Jun 30, 2020, its portfolio occupancy of 98.5% remained unchanged sequentially and expanded 20 basis points year over year.
- ▲ The company generates cash flow from real estate owned under long-term, net lease agreements, with regional and national commercial tenants. Under net lease agreements, the tenant is usually responsible for monthly rent and certain property operating expenses, including property taxes, insurance, and maintenance. This helps the company avoid unpredictable expenses and allows the company to enjoy a more predictable income stream.
- ▲ Realty Income is focused on external growth through exploring accretive acquisition opportunities. In fact, solid property acquisitions volume at decent investment spreads aided the company's performance. In 2019, the company invested \$3.7 billion in 789 properties and properties under development or in expansion including \$797.8 million in 18 properties across the U.K. Particularly, an amount worth \$1.2 billion of fourth-quarter acquisitions were related to the CIM portfolio buyout the company announced in September. The acquisitions of well-located commercial properties add to the company's scale, offering a competitive edge to its net lease industry. Continuing with its buyout efforts, Realty Income made property acquisitions worth \$640.2 million during the first half of 2020. Moreover, during the second quarter earnings release, the company reinstated its guidance with respect to its acquisition volume, which is currently estimated at \$1.25-\$1.75 billion for 2020.
- ▲ The pandemic caused disruptions in businesses and affected the financial conditions of tenants, impairing their ability to pay rent, thereby affecting cash flow from operations for landlords. However, Realty Income remains committed to improve its balance sheet strength and boost its liquidity. The company's new commercial paper program will aid the company to boost its near-term liquidity. Moreover, as of Jul 31, total liquidity amounted to \$2.9 billion including roughly \$400 million of cash in hand and \$2.5 billion borrowing capacity being available under the company's \$3-billion revolving credit facility. The company's financial policy approach underlines disciplined debt and equity funding. In fact, its utilization of its at-the-market (ATM) equity program as well as public offering of senior notes indicates its consistent capital-sourcing policy. Further, Realty Income has a well-laddered debt-maturity schedule with weighted average maturity of 8.3 years. Manageable near-term maturities and ample liquidity provide the company with financial flexibility to tide over the ongoing volatility and uncertainty and withstand any credit crisis. The company ended the second quarter with low leverage and strong coverage metrics. Further, Realty Income has a credit rating of A- / A3 / BBB+ from Standard & Poor's / Moody's / Fitch, respectively, enabling it to procure debt financing at attractive costs.
- ▲ Furthermore, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Realty Income remains committed to that. In June, the company announced a hike in its common stock monthly cash dividend, denoting its 107th dividend increase since its NYSE listing in 1994. Notably, the company enjoys a trademark on the phrase "The Monthly Dividend Company". Importantly, the company made 91 consecutive quarterly dividend hikes, which sound encouraging. This retail REIT has generated a compound average annual dividend growth of around 4.5% since the company's listing on the NYSE. The company also joined the S&P 500 Dividend Aristocrats® Index, which is designed to measure the performance of the S&P 500 companies that increased dividends every year for the last 25 consecutive years. Given its financial position and lower debt-to-equity ratio compared with the industry, the latest dividend rate is likely to be sustainable.
- ▲ Shares of Realty Income have lost 16% over the past year, narrower than its industry's decline of 19.7%. The Zacks Consensus Estimate for current-year FFO per share has moved marginally north over the past month. Given its progress in fundamentals and the upward estimate revisions, the stock has a decent upside potential.

Focus on leasing to service, non-discretionary and low price-based retailers, accretive buyouts as well as conservative capital structure augur well. Rising monthly dividend payout is encouraging.

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## Reasons To Sell:

- ▼ Over recent years, mall traffic has continued to suffer amid a rapid shift in customers' shopping preferences and patterns with online purchases growing by leaps and bounds. These have made retailers reconsider their footprint and eventually opt for store closures. Further, retailers that are not being able to cope with the competition are filing bankruptcies. This has emerged as a pressing concern for REITs like Realty Income, as the trend is curtailing demand for the retail real estate space considerably.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores or reduce store hours. Although situations now improved from the start of the pandemic, high infection rates are persistent concerns. As a result, retail REITs, which have already been battling store closure and bankruptcy issues, have been affected because retail businesses depend on customer traffic and consumers are avoiding gathering in large public spaces and increasingly opting for online purchases. Moreover, the company's tenants from theater, health and fitness, restaurant and child care industries are being impacted by government-mandated closures and social-distancing requirements. Management noted that uncollected rent continues to be mainly in the theater, health and fitness and restaurant industries as these industries account for roughly 81% of uncollected rent during the second quarter.
- ▼ Realty Income has substantial exposure to single tenant assets. In fact, the company's 6,541 properties in its portfolio as of Jun 30, 2020, 6,505 (representing 99.4%) are single-tenant properties while the remaining constitutes multi-tenant assets. However, single-tenant leases involve specific and significant risks associated with tenant default. Thus, in case of financial failure of, or default in payment by, a single tenant, the company's rental revenue from that property as well as the value of the property suffers significantly.

Realty Income's substantial exposure to single tenant assets raises its risks associated with tenant default. Furthermore, rent collections, store closures and retail bankruptcies are concerning.

## Last Earnings Report

### Realty Income Beats on Q2 FFO, Reinstates Acquisition View

Realty Income's second-quarter 2020 adjusted AFFO per share of 86 cents surpassed the Zacks Consensus Estimate of 76 cents. The reported figure is also up 4.9% from the prior-year quarter's 82 cents.

Per management, second-quarter operating results "continue to demonstrate the stability and resiliency" of the company's business. The company also noted that its diversified and high-quality real estate portfolio, mainly leased to tenants offering non-discretionary and/or low price point goods or services, witnessed healthy occupancy level of 98.5% at the end of the quarter.

Total revenues for the reported quarter came in at \$414.6 million, up 13.5% year over year. The revenue figure also exceeded the Zacks Consensus Estimate of \$393.7 million.

The company also apprised of its rental receipts through Jul 31, and noted that it has collected 86.5% of contractual rent in the second quarter and 91.5% of contractual rent for July across the total portfolio. Further, it has collected 90.7% of contractual rent due for July from the top 20 tenants and 100% of contractual rent for the month from its investment-grade tenants.

### Quarter in Detail

During second-quarter 2020, same-store rental revenue on 5,539 properties under lease edged down 0.4% to \$315.7 million from the prior-year quarter. Portfolio occupancy of 98.5% as of Jun 30, 2020, remained unchanged sequentially and expanded 20 basis points year over year. Further, the company generated a rent recapture rate of 101.4% on re-leasing activity.

During the reported quarter, Realty Income invested \$154.2 million in 32 properties and properties under development or expansion. This also includes \$58.2 million in two properties in the U.K.

Around 41% of the rental revenues reaped from acquisitions during the quarter came in from investment grade-rated tenants, their subsidiaries or affiliated companies, their subsidiaries or affiliated companies.

The company sold 12 properties, generating net proceeds of \$7.4 million, with a gain on sales of \$1.3 million, during the April-June period.

### Balance Sheet

Realty Income exited the second quarter with cash and cash equivalents of \$35.3 million, down from the \$54 million witnessed at the end of 2019. Furthermore, the company raised \$98.1 million from the sale of common stock, at a weighted average price of \$63.07 per share, during the quarter, primarily through its At-The-Market-Program. In addition, it raised \$593.9 million through the issuance of 3.250% senior unsecured notes due in 2031.

Realty Income has a \$3-billion unsecured revolving credit facility with an initial term that expires in March 2023. The revolving credit facility also has a \$1-billion accordion feature. As of Jun 30, 2020, the company had balance of borrowings outstanding under its revolving credit facility of \$628.6 million. Notably, in June, the company repaid one of the \$250-million senior term loans in full upon maturity.

Realty Income ended the second quarter with a net debt to EBITDA ratio of 5.1x and a fixed charge coverage ratio of 5.4x. Moreover, as of Jul 31, total liquidity amounted to \$2.9 billion, including roughly \$400 million of cash in hand and \$2.5 billion remaining borrowing capacity available on its \$3-billion revolving credit facility, thereby enjoying healthy financial flexibility.

### Outlook

Realty Income noted that while it withdrew the 2020 guidance on Apr 9 in light of the coronavirus pandemic, the company is now reinstating the same relating to its acquisition volume, which is currently estimated at \$1.25-\$1.75 billion for 2020.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Aug 03, 2020 |
| Sales Surprise   | 5.32%        |
| EPS Surprise     | 13.16%       |
| Quarterly EPS    | 0.86         |
| Annual EPS (TTM) | 3.43         |

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## Recent News

### Realty Income Initiates a \$1-Billion Commercial Paper Program — Aug 21, 2020

Realty Income launched a U.S. dollar-denominated unsecured commercial paper program under which it may issue unsecured commercial paper notes up to \$1 billion of the maximum aggregate outstanding amount.

Notably, the notes will be sold under customary terms in the United States commercial paper note market. Moreover, it will be ranked pari passu with all the company's other unsecured senior debt including any outstanding senior notes and borrowings under the revolving credit facility.

Realty Income expects to use note proceeds of the program for general corporate purposes. Moreover, it will likely utilize the \$3-billion revolving credit facility as a liquidity backstop to repay notes issued under the commercial paper program.

Markedly, the pandemic caused disruptions in businesses and impacted the financial conditions of tenants, impairing their ability to pay rent. This affected cash flow from operations for landlords. Hence, companies deepened focus on preserving liquidity as a precautionary measure. Realty Income's new commercial paper program too will aid it to boost its near-term liquidity.

### Dividend Update

On Aug 18, Realty Income's board of directors announced its 602nd consecutive common stock monthly dividend of 23.35 cents per share. This will be paid out on Sep 15 to its shareholders of record as of Sep 1, 2020.

Previously, on Jun 9, Realty Income announced a monthly dividend hike to 23.35 cents per share from 23.30 cents paid out earlier. This marked the company's 107th common stock monthly dividend hike since its NYSE listing in 1994. The increased dividend was paid out on Jul 15 to its shareholders of record as of Jul 1, 2020.

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## Valuation

Realty Income's shares have been down 16% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 19.7% and 6.2% over the past year, respectively.

The S&P 500 Index has been up 13.7% over the trailing 12-month period.

The stock is currently trading at 18.14X forward 12-month FFO, which compares with the 13.53X for the Zacks sub-industry, 16.72X for the Zacks sector and 23.04X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.36X and as low as 11.97X, with a 5-year median of 18.84X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$66 price target reflects 19.30X FFO.

The table below shows summary valuation data for O.

| Valuation Multiples - O |               |       |              |        |         |
|-------------------------|---------------|-------|--------------|--------|---------|
|                         |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                | Current       | 18.14 | 13.53        | 16.72  | 23.04   |
|                         | 5-Year High   | 24.36 | 19.44        | 16.72  | 23.04   |
|                         | 5-Year Low    | 11.97 | 9.72         | 11.60  | 15.25   |
|                         | 5-Year Median | 18.84 | 14.69        | 14.26  | 17.60   |
| P/S F12M                | Current       | 12.65 | 7.25         | 6.23   | 3.93    |
|                         | 5-Year High   | 16.49 | 13.91        | 6.67   | 3.93    |
|                         | 5-Year Low    | 8.49  | 5.43         | 4.97   | 2.53    |
|                         | 5-Year Median | 12.91 | 8.19         | 6.07   | 3.07    |
| P/B TTM                 | Current       | 2.05  | 2.56         | 2.54   | 4.50    |
|                         | 5-Year High   | 2.90  | 5.57         | 2.91   | 4.76    |
|                         | 5-Year Low    | 1.41  | 1.77         | 1.72   | 2.83    |
|                         | 5-Year Median | 2.29  | 3.33         | 2.54   | 3.76    |

As of 08/31/2020

## Industry Analysis Zacks Industry Rank: Bottom 4% (240 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                         | Rec     | Rank |
|------------------------------------------|---------|------|
| Agree Realty Corporation (ADC)           | Neutral | 3    |
| CBLAssociates Properties, Inc. (CBL)     | Neutral | 3    |
| Four Corners Property Trust, Inc. (FCPT) | Neutral | 2    |
| Getty Realty Corporation (GTY)           | Neutral | 3    |
| National Retail Properties (NNN)         | Neutral | 3    |
| Regency Centers Corporation (REG)        | Neutral | 4    |
| Spirit Realty Capital, Inc. (SRC)        | Neutral | 3    |
| STORE Capital Corporation (STOR)         | Neutral | 4    |

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

| Industry Comparison Industry: Reit And Equity Trust - Retail |           |            |           | Industry Peers |         |           |
|--------------------------------------------------------------|-----------|------------|-----------|----------------|---------|-----------|
|                                                              | O         | X Industry | S&P 500   | NNN            | SRC     | STOR      |
| Zacks Recommendation (Long Term)                             | Neutral   | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                                      | 3         | -          | -         | 3              | 3       | 4         |
| VGM Score                                                    | D         | -          | -         | F              | D       | D         |
| Market Cap                                                   | 21.40 B   | 1.40 B     | 23.72 B   | 6.15 B         | 3.66 B  | 6.61 B    |
| # of Analysts                                                | 11        | 6.5        | 14        | 8              | 5       | 10        |
| Dividend Yield                                               | 4.52%     | 2.42%      | 1.65%     | 5.87%          | 7.04%   | 5.18%     |
| Value Score                                                  | D         | -          | -         | D              | D       | D         |
| Cash/Price                                                   | 0.02      | 0.10       | 0.07      | 0.04           | 0.03    | 0.10      |
| EV/EBITDA                                                    | 27.34     | 11.59      | 13.28     | 15.43          | 15.32   | 12.88     |
| PEG F1                                                       | 4.22      | 6.17       | 3.03      | NA             | NA      | NA        |
| P/B                                                          | 2.05      | 1.06       | 3.17      | 1.55           | 1.17    | 1.40      |
| P/CF                                                         | 19.23     | 6.36       | 12.87     | 12.30          | 9.70    | 12.02     |
| P/E F1                                                       | 18.88     | 10.08      | 21.63     | 13.95          | 12.76   | 14.60     |
| P/S TTM                                                      | 13.37     | 3.48       | 2.53      | 9.03           | 6.91    | 9.56      |
| Earnings Yield                                               | 5.34%     | 9.92%      | 4.39%     | 7.17%          | 7.83%   | 6.84%     |
| Debt/Equity                                                  | 0.76      | 1.09       | 0.70      | 0.81           | 0.65    | 0.62      |
| Cash Flow (\$/share)                                         | 3.23      | 2.19       | 6.93      | 2.88           | 3.66    | 2.25      |
| Growth Score                                                 | D         | -          | -         | F              | D       | D         |
| Historical EPS Growth (3-5 Years)                            | 4.83%     | -0.36%     | 10.41%    | 4.87%          | -6.73%  | 7.81%     |
| Projected EPS Growth (F1/F0)                                 | -0.22%    | -16.67%    | -4.75%    | -7.93%         | -16.71% | -6.93%    |
| Current Cash Flow Growth                                     | 12.23%    | 0.37%      | 5.22%     | 11.44%         | -1.18%  | 26.71%    |
| Historical Cash Flow Growth (3-5 Years)                      | 10.10%    | 5.61%      | 8.49%     | 9.67%          | 11.14%  | 36.02%    |
| Current Ratio                                                | 2.94      | 2.29       | 1.35      | 13.98          | 0.93    | 0.96      |
| Debt/Capital                                                 | 43.15%    | 52.55%     | 42.92%    | 42.75%         | 38.30%  | 38.35%    |
| Net Margin                                                   | 30.30%    | 17.83%     | 10.25%    | 35.75%         | 13.17%  | 39.73%    |
| Return on Equity                                             | 4.89%     | 4.88%      | 14.66%    | 6.12%          | 2.19%   | 6.06%     |
| Sales/Assets                                                 | 0.09      | 0.12       | 0.50      | 0.09           | 0.09    | 0.08      |
| Projected Sales Growth (F1/F0)                               | 8.95%     | -8.20%     | -1.40%    | -3.64%         | 6.73%   | 3.06%     |
| Momentum Score                                               | C         | -          | -         | D              | B       | A         |
| Daily Price Change                                           | -2.22%    | -1.89%     | -0.82%    | -2.96%         | -2.28%  | -2.03%    |
| 1-Week Price Change                                          | 3.80%     | 2.93%      | 2.59%     | 4.40%          | 3.00%   | 5.91%     |
| 4-Week Price Change                                          | 4.41%     | 2.10%      | 3.55%     | 1.72%          | 5.37%   | 15.26%    |
| 12-Week Price Change                                         | -3.33%    | -23.85%    | -0.44%    | -12.39%        | -11.09% | 1.73%     |
| 52-Week Price Change                                         | -15.96%   | -39.69%    | 2.80%     | -36.88%        | -25.93% | -28.39%   |
| 20-Day Average Volume (Shares)                               | 1,912,749 | 893,950    | 1,839,384 | 874,295        | 579,598 | 2,769,423 |
| EPS F1 Estimate 1-Week Change                                | -0.03%    | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 2.06%     |
| EPS F1 Estimate 4-Week Change                                | 0.39%     | -1.02%     | 0.20%     | -1.17%         | 0.08%   | 0.16%     |
| EPS F1 Estimate 12-Week Change                               | -3.73%    | -7.31%     | 3.87%     | -6.86%         | 3.56%   | -0.54%    |
| EPS Q1 Estimate Monthly Change                               | 0.99%     | 0.00%      | 0.00%     | 0.68%          | 0.31%   | 0.56%     |

Source: Zacks Investment Research

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## Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>D</b> |
| Growth Score   | <b>D</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>D</b> |

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

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## Disclosures

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## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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