Paycom Software, Inc. (PAYC)

$399.00 (As of 01/15/21)

Price Target (6-12 Months): **$419.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 08/19/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: F | Growth: D | Momentum: B	

Summary

Paycom reported better-than-expected third-quarter 2020 results. While earnings stayed flat year over year, revenues increased, mainly driven by new client additions which offset the negative impact of interest-rate cuts and lower headcounts at client offices. The latest quarterly results reflect that it has managed to continue its growth momentum despite disruptions caused by the COVID-19 pandemic. The company is benefiting from its differentiated employee strategy, measurement capabilities and comprehensive product offerings, which are helping it to win new customers. Further, solutions like Ask Here and Manager on-the-Go, both focusing on greater employee usage and efficiency, are tailwinds. Nonetheless, we anticipate near-term headwinds to margin due to lower interest rates. Paycom shares have outperformed the industry in the past year.
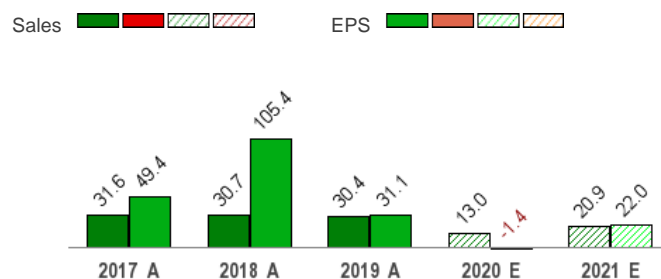
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	$471.08 - $163.42
20-Day Average Volume (Shares)	363,637
Market Cap	$23.3 B
Year-To-Date Price Change	-11.8%
Beta	1.49
Dividend / Dividend Yield	$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Bottom 21% (199 out of 253)
Last EPS Surprise	25.0%
Last Sales Surprise	2.4%
EPS F1 Estimate 4-Week Change	-0.4%
Expected Report Date	02/03/2021
Earnings ESP	0.0%
P/E TTM	113.7
P/E F1	94.8
PEG F1	3.8
P/S TTM	28.7

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	268 E	226 E	245 E	271 E	1,008 E
2020	242 A	182 A	197 A	214 E	834 E
2019	200 A	169 A	175 A	193 A	738 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.42 E	$0.81 E	$0.92 E	$1.11 E	$4.21 E
2020	$1.33 A	$0.62 A	$0.70 A	$0.81 E	$3.45 E
2019	$1.19 A	$0.75 A	$0.70 A	$0.86 A	$3.50 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 01/15/2021. The reports text is as of 01/18/2021.

Overview

Headquartered in Oklahoma City, Paycom Software, Inc. is a provider of cloud-based human capital management (HCM) software as a service solution for integrated software for both employee records and talent management processes.

Founded in 1998, the company offers analytics that manages the complete employment life cycle from recruitment to retirement.

Paycom serves more than 23,500 clients or nearly 12,700 customers based on Parent Company Grouping. Its human resource services include retirement services administration, workers' compensation administration, employee benefit solutions, professional employer organization and other administrative services for businesses.

Paycom's HCM solution offers a full suite of applications that generally falls within the following categories, namely talent acquisition, time and labor management, payroll, talent management and HR management.

Its HCM software streamlines and automates many of the day-to-day record-keeping processes and provides a framework for HR staff to manage benefits administration and payroll, map out succession planning and document such things as personnel actions and compliance with industry and/or government regulations. The cloud-based HCM reduces the administrative burden on employers and increases employee productivity.

EPS Hist. and Est.

Sales Hist. and Est.

In 2019, Paycom reported revenues of $737.7 million, representing growth of 30% year over year. Recurring revenues of $724.4 million grew 30% from the prior year, and constituted 98% of total revenues.

Paycom talent acquisition and talent management applications compete primarily with Cornerstone OnDemand, Oracle, SAP and Workday. Its payroll applications including payroll processing rival primarily with Automatic Data Processing, Ceridian, Paychex, Paylocity and The Ultimate Software. Its HR management applications contend mainly with ADP, Ceridian, Oracle, Paychex, Paylocity, SAP and Workday. The company's time and labor management applications compete primarily with ADP, Ceridian, Kronos, Paylocity and The Ultimate Software Group.

As of Dec 31, 2019, the company had 3,765 employees across the United States.
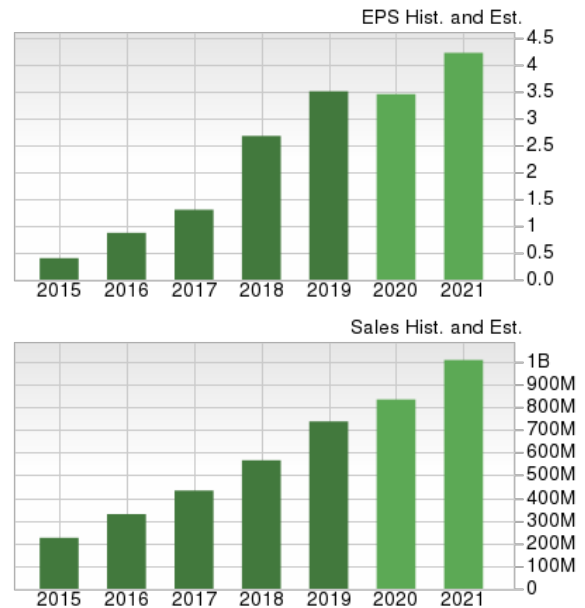
Source: Zacks Investment Research

Reasons To Buy:

▲ Paycom offers end-to-end SaaS HCM solution that minimizes data integrity issues across applications. Paycom's SaaS based solution reduces the time, risk and headcount related with installing and maintaining applications for on premise products. We are also positive as Paycom continues to invest in SaaS technology and mobile applications by acquiring SaaS-based businesses. Further, we believe that Paycom's cloud-based solution has greater demand across a wide section of verticals. Larger companies have greater and more complex HCM needs and Paycom's solution is evolving to serve them. The growth of cloud computing has supported the SaaS delivery model. According to Gartner, the global SaaS market is expected to grow to $104.7 billion in 2020 and reach $140.7 billion by 2022. With its SaaS-based applications, we think that Paycom is well-positioned to lead the market.

▲ Revenue growth is an important metric for any company as it is a vital part of growth projections and instrumental in strategic decision-making. Also, revenue growth is essential to justify the fixed and variable expenses incurred to operate a business. Paycom has grown meaningfully over the years by providing industry-leading service and technology solutions to its clients and their employees. Its solid business model, diversified products and services, and strategic acquisitions have boosted top-line growth. Higher revenues will expand margins and increase profitability in the long run.

▲ Paycom expands its client base with the help of direct sales force. The company is winning market share over the most critical client demand area of HCM, which in turn, supports its growth. The HCM solution includes talent acquisition, time and labor management, payroll, talent management and human resources ("HR") management applications. These offerings have been increasingly helping clients manage both permanent and temporary workforce. As a result, the company has a huge client base. Notably, continuous focus on client retention, on the basis of high client satisfaction, has helped the company to increase its average annual client retention rate to 93% in 2019, from 92% in 2018 and 91% for each of the preceding six years. The company is gaining foothold among larger companies. As a result of this, the company is expanding its proactive sales effort to target companies with 50-5000 employees against its earlier target of 50-2000 employees.

▲ Paycom is a cash rich company with a strong balance sheet. As of Sep 30, 2020, the company had cash and cash equivalents of $156.4 million, which is significantly higher than its total debt (long-term debt with current maturities) of $31.3 million. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

▲ Paycom boasts a sturdy cash-flow generating ability. The company had generated operating cash flow of $224 million in 2019 compared with $185 million in 2018. Cash from operations was $174.3 million in the first nine months of 2020. The robust cash flow enables it to serve debt efficiently and enhance shareholders wealth through share repurchases. On Mar 12, 2020, the company increased its share repurchase program to $250 million which would be completed between Mar 13, 2020 and Mar 12, 2022. In the first half of 2020, the company repurchased $52 million of its common stocks. In third-quarter, it bought back shares worth $52 million.

> Better-than-expected demand for advanced human capital management and payroll software solutions are the positives.

Reasons To Sell:

▼ Competition in the HCM software market is increasing, which could lead to pricing pressure and affect Paycom's margins. Some of the possible competitors in this space include ADP, Ceridian, Oracle, Paychex, SAP etc., which offer similar services. Moreover, we believe that Paycom's dominance could be challenged by new entrants. This could lead the company to resort to competitive pricing to maintain and capture further market share. This apart, the ongoing trend to invest more in cloud solutions exposes Paycom to the risk of losing existing "on-premise customers", which can adversely impact its top-line performance, especially in the short run. Notably, improvement in ADP's retention rate and a transition of all its mid-market customers to internal SaaS solutions is a major threat to Paycom, which lured away customers from the former.

Competition from companies likes Paylocity Holding, Intuit and Paychex remains a headwind.

▼ Paycom's SaaS network infrastructure is a critical part of the company's business operations. These SaaS-based solutions are prone to certain disruptions caused by human error, cyber threats, security breaches etc. The impact of cyber-attack in today's computer-dependent economy poses a major concern across the globe. Cyber-warfare and espionage attacks are expected to rise. The attacks on Internet of Things (IoT) devices will increase rapidly due to whopping growth in the number of connected objects, poor security and the high value of data on IoT devices. These cyber-attacks and security vulnerabilities might result in lower revenues, higher costs, liability claims, and can be a competitive disadvantage. Paycom depends upon information technology ("IT") networks, cloud-based platforms, and systems to maintain various business processes. These disruptions may lead to increased customer dissatisfaction. Hence, if the company wants to maintain its key position in the industry, then enhanced levels of security to safeguard against such attacks are of utmost importance.

▼ A major portion of the company's business depends on agreement renewal on the part of customers and purchase of additional applications. If customers do not sense additional value and expected benefits from the new solutions, they are unlikely to upgrade themselves to the latest solutions, which in turn, will hurt the company's revenues. In case customers do not purchase additional applications or subscribe to latest applications, then it will become increasingly difficult for Paycom to hold its existing market share, adding to its woes. Additionally, the company is subject to risks related to human resource like maintenance of a gender-diversified workforce across the globe. Moreover, there is a dearth of skilled IT professionals, which exposes the company to risks of losing talented professionals, which in turn, might hurt its competitive position.

▼ Paycom currently has a trailing 12-month P/B ratio of 39.58X, which compares unfavorably to some extent with what the industry saw over the last year. Hence, valuation looks slightly stretched from a P/B perspective.

Last Earnings Report

Paycom's Q3 Earnings and Revenues Surpass Estimates

Paycom Software reported better-than-anticipated third-quarter 2020 results on Wednesday. The online payroll and human resource technology provider's adjusted earnings of 70 cents per share beat the Zacks Consensus Estimate of 56 cents and remained flat year over year.

Revenues

The company generated revenues of $196.5 million, which increased 12.3% from the year-earlier period as well as surpassed the consensus mark of $192 million. This year-over-year increase was mainly driven by new client additions which offset the negative impact of interest-rate cuts and lower headcounts at client offices.

In its earnings conference call, Paycom noted that lower headcounts at its pre-pandemic client offices resulted in approximately $2-million weekly recurring revenue loss during the quarter. Moreover, the 150-basis-point interest-rate cut in March led to an additional weekly recurring revenue loss of $350,000.

Margins

Adjusted gross profit increased 11.7% from the year-ago period to $166.8 million. However, adjusted gross margin contracted 40 basis points (bps) on a year-over-year basis to 84.9%.

Paycom Software's adjusted EBITDA inched up 1.4% year on year to $67.5 million. However, adjusted EBITDA margin shrunk 370 bps to 34.3%.

Balance Sheet & Cash Flow

Paycom Software exited the September-end quarter with cash and cash equivalents of $156.4 million compared with the $113.5 million recorded in the prior quarter.

The company's balance sheet comprises long-term debt (including current maturities) of $31.3 million compared with the previous quarter's $31.8 million.

Cash from operations was $174.3 million in the first nine months of 2020, and the company repurchased approximately $52 million worth of its common stock.

Guidance

For the fourth quarter, Paycom Software estimates revenues between $212 million and $214 million.

Management projects adjusted EBITDA in the range of $76 million to $78 million.

Quarter Ending	09/2020
Report Date	Nov 04, 2020
Sales Surprise	2.35%
EPS Surprise	25.00%
Quarterly EPS	0.70
Annual EPS (TTM)	3.51

Recent News

On Sep 17, 2020, Paycom revealed that its founder and CEO, Chad Richison, has been named one of Glassdoor's Highest Rated CEOs During the COVID-19 Crisis, based on employee submitted feedback.

On Mar 12, 2020, Paycom increases its share repurchase program to $250 million which would be completed between Mar 13, 2020 and Mar 12, 2022.

On Feb 3, 2020, Paycom Software announced the release of Manager on-the-Go, a tool within the Paycom mobile app that allows for 24/7 accessibility to essential manager-side functionality within Paycom.

Valuation

Shares of Paycom have gained 31.8% over the six-month period and 34.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 33.9% and 19.7%, in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector have soared 91% and 32.4%, respectively.

The S&P 500 Index has increased 16.5% in the past six-month period while has gained 14.9% in the past year.

The stock is currently trading at 22.87X forward 12-month sales, which compares to 11.2X for the Zacks sub-industry, 4.79X for the Zacks sector and 4.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.06X and as low as 4.35X with a 5-year median of 10.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $419 price target reflects 24.01X forward 12-month sales.

The table below shows summary valuation data for PAYC

Valuation Multiples - PAYC		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	22.87	11.20	4.79	4.48
	5-Year High	27.06	11.20	4.79	4.48
	5-Year Low	4.35	3.04	2.77	3.20
	5-Year Median	10.93	5.78	3.47	3.68
P/B TTM	Current	36.92	13.54	8.91	6.47
	5-Year High	43.04	14.74	9.06	6.58
	5-Year Low	13.53	2.34	4.09	3.73
	5-Year Median	26.56	5.90	5.68	4.94
EV/Sales TTM	Current	28.53	12.76	5.41	4.46
	5-Year High	33.28	13.93	5.46	4.46
	5-Year Low	5.80	3.12	2.85	2.62
	5-Year Median	13.65	6.15	3.90	3.59

As of 01/15/2021   Source: Zacks Investment Research

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

Zacks Equity Research   www.zackspro.com   Page 6 of 12

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 253)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Box, Inc. **(BOX)**	Neutral	3
Cloudera, Inc. **(CLDR)**	Neutral	2
CROWDSTRIKE HLD **(CRWD)**	Neutral	2
Evolent Health, Inc **(EVH)**	Neutral	3
HubSpot, Inc. **(HUBS)**	Neutral	3
StoneCo Ltd. **(STNE)**	Neutral	3
Zendesk, Inc. **(ZEN)**	Neutral	3
Ceridian HCM Holding Inc. **(CDAY)**	Underperform	3

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

Industry Comparison Industry: Internet - Software   Industry Peers

	PAYC	X Industry	S&P 500	BOX	CLDR	CRWD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	D	-	-	A	C	D
Market Cap	23.35 B	1.61 B	27.23 B	2.86 B	4.44 B	48.57 B
# of Analysts	6	5	13	6	5	8
Dividend Yield	0.00%	0.00%	1.44%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	F	F
Cash/Price	0.01	0.07	0.06	0.09	0.09	0.02
EV/EBITDA	86.53	-0.84	14.76	-48.88	-21.26	-582.12
PEG F1	3.79	4.27	2.58	NA	NA	40.14
P/B	36.92	9.55	3.73	32.61	3.06	59.53
P/CF	111.74	33.85	14.32	NA	NA	NA
P/E F1	94.77	82.94	20.57	27.69	34.66	1,003.47
P/S TTM	28.69	7.90	2.98	3.78	5.20	63.77
Earnings Yield	1.06%	0.47%	4.78%	3.61%	2.89%	0.10%
Debt/Equity	0.05	0.02	0.70	1.38	0.00	0.00
Cash Flow ($/share)	3.57	-0.00	6.92	-0.37	-0.40	-0.41
Growth Score	D	-	-	A	A	B
Historical EPS Growth (3-5 Years)	57.54%	20.20%	9.72%	NA	NA	NA
Projected EPS Growth (F1/F0)	22.27%	16.58%	12.26%	2,066.67%	415.38%	152.08%
Current Cash Flow Growth	33.31%	6.87%	5.20%	-23.00%	-12.95%	-12.73%
Historical Cash Flow Growth (3-5 Years)	58.95%	20.21%	8.37%	8.89%	NA	NA
Current Ratio	1.09	1.90	1.38	0.90	1.23	1.91
Debt/Capital	4.46%	6.75%	41.97%	57.94%	0.00%	0.00%
Net Margin	20.21%	-18.21%	10.44%	-9.12%	-20.16%	-13.40%
Return on Equity	26.72%	-6.84%	15.40%	-124.79%	-6.53%	-12.79%
Sales/Assets	0.35	0.57	0.50	0.79	0.38	0.48
Projected Sales Growth (F1/F0)	20.88%	15.85%	6.01%	10.37%	8.32%	78.36%
Momentum Score	B	-	-	A	C	D
Daily Price Change	-3.39%	-1.10%	-0.59%	0.00%	-1.66%	-2.71%
1-Week Price Change	-2.46%	1.69%	2.23%	2.99%	4.10%	5.62%
4-Week Price Change	-9.69%	3.41%	2.58%	-4.46%	9.98%	18.49%
12-Week Price Change	5.74%	30.66%	11.96%	8.83%	38.77%	63.16%
52-Week Price Change	35.57%	45.09%	5.71%	8.43%	22.18%	252.68%
20-Day Average Volume (Shares)	363,637	578,179	1,749,628	2,140,972	4,522,188	4,840,589
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.44%	0.00%	0.06%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	4.25%	0.14%	2.44%	17.41%	42.14%	27.81%
EPS Q1 Estimate Monthly Change	-1.05%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	F
Growth Score	D
Momentum Score	B
VGM Score	D

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

Disclosures

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Zacks Equity Research   www.zackspro.com   Page 8 of 12

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm 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 mostrecent 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 Equity Research   www.zackspro.com   Page 9 of 12

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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Zacks Equity Research www.zackspro.com Page 10 of 12

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.

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.