

## Philip Morris(PM)

**\$77.01** (As of 09/22/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

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

(Since: 05/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

## Summary

Philip Morris has outpaced the industry in the past three months. The company has long been benefiting from its pricing power, which also aided its second-quarter 2020 results. During the quarter, both top and bottom lines beat the consensus mark. Notably, favorable pricing variance was an upside, though it was countered by adverse volume/mix, mainly stemming from low cigarette volumes. The company has been battling soft cigarette volumes for a while due to rising health consciousness and stern regulations. Apart from this, management does not expect a near-term recovery in the duty-free business due to travel-related uncertainties amid the pandemic. Also, a delay in minimum price enforcement in Indonesia is a concern. All said, revenues are likely to decline in 2020. Nonetheless, strength in RRP, especially IQOS, is expected to offer respite.

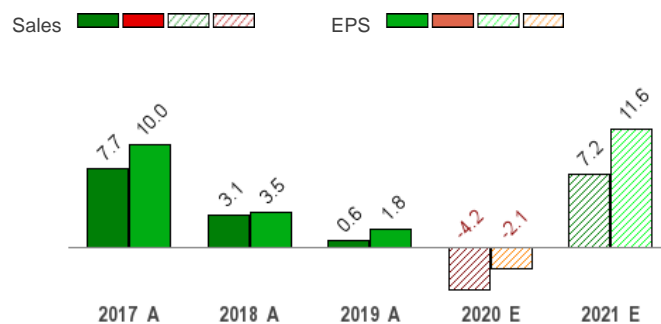
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$90.17 - \$56.01</b>
20-Day Average Volume (Shares)	<b>3,901,043</b>
Market Cap	<b>\$121.2 B</b>
Year-To-Date Price Change	<b>-8.5%</b>
Beta	<b>0.76</b>
Dividend / Dividend Yield	<b>\$4.80 / 6.0%</b>
Industry	<b>Tobacco</b>
Zacks Industry Rank	<b>Top 30% (76 out of 251)</b>

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



Last EPS Surprise	<b>18.4%</b>
Last Sales Surprise	<b>2.5%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>10/20/2020</b>
Earnings ESP	<b>2.4%</b>
P/E TTM	<b>15.1</b>
P/E F1	<b>15.2</b>
PEG F1	<b>1.9</b>
P/S TTM	<b>1.6</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,353 E	7,763 E	7,772 E	8,016 E	30,595 E
2020	7,153 A	6,651 A	7,269 E	7,426 E	28,545 E
2019	6,751 A	7,699 A	7,642 A	7,713 A	29,805 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.22 E	\$1.59 E	\$1.52 E	\$1.39 E	\$5.67 E
2020	\$1.21 A	\$1.29 A	\$1.35 E	\$1.24 E	\$5.08 E
2019	\$1.09 A	\$1.46 A	\$1.43 A	\$1.22 A	\$5.19 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 09/22/2020. The reports text is as of 09/23/2020.

## Overview

Philip Morris International is progressing well with its business transformation in the face of consumers rising health consciousness and stern regulations to dissuade smoking. To this end, the tobacco giant has been expanding in the reduced risk products (RRPs) category, evident from the launch of IQOS (a heating tobacco device) that counts amongst one of the leading RRP in the industry. We note that RRP formed close to 25% of the company's total revenues in second-quarter 2020, including about 8% contribution from IQOS devices. Nevertheless, the company's combustible category presently remains its major revenue contributor.

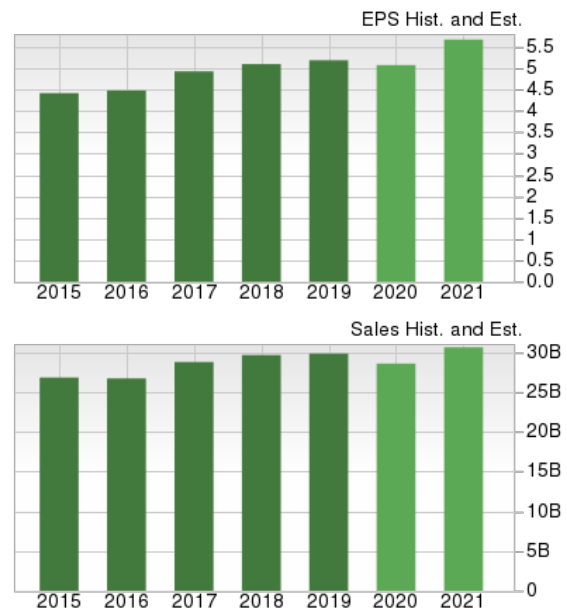
Philip Morris manufactures and sells cigarettes, other tobacco products and other nicotine-containing products outside the United States in more than 180 countries. Also, the company ships a form of its Platform 1 device sanctioned by the FDA, to Altria Group, for sale in the United States. In fact, Philip Morris shares a licensing agreement with Altria for the sale of IQOS in United States.

In Mar 2008, Philip Morris International was spun off from the Altria Group. However, Philip Morris USA, Inc. (PM USA) continues to be a subsidiary of the Altria Group.

Philip Morris participates in the profitable premium cigarette category with its Marlboro, Parliament and Virginia Slims brands; in the mid-price category with its L&M, Lark, Merit, Muratti and Philip Morris brands. Other leading international brands include Bond Street, Chesterfield, Next and Red & White.

The company is also engaged in the development and commercialization of RRP, which generally are less harmful than cigarette smoking. The company expects that RRP are likely to help smokers in quitting cigarette consumption.

On a product basis, Philip Morris reports results under the combustible and RRP categories. From Jan 1, 2018, Philip Morris started operating through the following reporting segments: the European Union Region (EU); the Eastern Europe Region (EE); the Middle East & Africa Region (ME&A); the South & Southeast Asia Region (S&SA); the East Asia & Australia Region (EA&A); and the Latin America & Canada Region (LA&C). Notably, the ME&A region also include PMI Duty Free.



Source: Zacks Investment Research

## Reasons To Buy:

▲ **Strong Pricing a Growth Driver, Stock Outperforms:** Shares of Phillip Morris have gained 9.9% in the past three months compared with the industry's growth of 1.6%. The company has long been benefiting from its strong pricing power, which has aided its revenues and adjusted operating income even in the face of the unfavorable tax environment and declining cigarette volumes. Though higher pricing might lead to possible decline in cigarette consumption, it is seen that smokers tend to absorb price increases owing to the addictive quality of cigarettes. Evidently, higher pricing at the combustible tobacco portfolio has been aiding the company's performance for a while. In fact, higher pricing variance was an upside to the company's performance across most regions during the second quarter of 2020, wherein the top and bottom lines beat the Zacks Consensus Estimate. Combustible pricing of 3.3%, together with strength in RRP's and cost-efficiencies aided the company's adjusted operating income margin in the quarter. Continued pricing power is likely to act as an upside.

Philip Morris continues to benefit from efficient cigarette pricing and advancement in the RRP's category.

On a constant-currency basis, management expects adjusted operating margin on an LFL basis to jump more than 150 basis points in 2020. Philip Morris expects adjusted earnings per share on a constant currency basis to grow 3.5-5% to \$5.31-\$5.38. Also, the company said that once COVID-19-related hurdles subside, it expects to return to growth, which is in line with its 2019-2021 algorithms, including currency-neutral compound annual growth rate of 5% or more for net revenues and 8% or more for the bottom line.

▲ **RRP's a Key Catalyst:** Serious health hazards due to cigarette smoking have pushed consumers toward low-risk, reduced risk products (RRP's). The company is progressing well with its business transformation, with about 8% of shipment volumes and one-fifth of net revenues coming from smoke-free products as of the end of 2019. Toward this end, the company's IQOS, a smokeless cigarette, counts amongst one of the leading RRP's in the industry. Incidentally, on Jul 7, the FDA approved a version of IQOS's marketing as a modified risk tobacco product (MRTP), which is likely to bolster its business. Notably, IQOS was launched in the United States in 2019, through a commercial deal with Altria that was approved by the FDA. Further, Phillip Morris submitted a supplemental premarket tobacco product application (PMTA) with the U.S. Food and Drug Administration on Mar 30 for the IQOS 3 tobacco heating device. We note that RRP's formed around one-fourth of the company's total revenues in the second quarter of 2020, including about 8% contribution from IQOS devices. These next-generation devices are backed by substantial scientific insights and research. The company expects such advanced and high-quality products to aid adult smokers to switch from traditional cigarettes to smoke-free options. In fact, total users of IQOS as of the end of the second quarter were estimated to be about 15.4 million, including roughly 11.2 million users who have shifted from smoking to IQOS. Management noted that since the onset of the pandemic, the switch from smoking to RRP's has been trending positively. Strong growth in IQOS boosted revenues in the RRP's category, which increased 9.5% to \$1,606 million in the second quarter. Moreover, heated tobacco unit shipment volumes of 18.7 billion units rose 24.3% year over year.

The company expects consistent growth in the heated tobacco category, and therefore has been committed toward expanding these products. The company remains on track to achieve its 2021 goal of 90-100 billion shipments of heated tobacco units. Notably, the company launched IQOS 3 DUO in 2019, which is now available in all of its international markets. Philip Morris has also been undertaking plant conversions, transforming them from cigarette to RRP's manufacturing facilities. Markedly, IQOS is presently the only heat-not-burn product in the U.S. market, which has been approved by the FDA. This is expected to radically boost the business of the companies. Among other initiatives, Philip Morris announced plans to start commercializing South Korea's KT&G's smoke-free products outside the country. The move forms part of the company's agreement with KT&G, signed in January 2020. In earlier developments, Philip Morris inked a deal with Canada-based Parallax that provides low-risk tobacco alternatives.

▲ **Strong Brand Portfolio:** Philip Morris commands a leading market position in the tobacco industry supported by its strong brand portfolio. Its portfolio boasts popular names like Marlboro, L&M, Bond Street, Parliament, Philip Morris, Chesterfield, Sampoerna A, Virginia Slims, Champion and Benson & Hedges. Marlboro leads the brands and has the largest market share.

▲ **Operations Running Amid Pandemic:** Philip Morris has been on track to lower COVID-19-related business disruptions. The company, in its second-quarter conference call, notified that it currently has adequate access to inputs and is not encountering any major supply-related hurdle. Most of the company's production facilities are operational as of now, including all heated tobacco unit factories. Some cigarette manufacturing facilities have been temporarily affected by government-imposed shutdowns or production limitations. However, they form about less than 5% of the company's total cigarette production capacity globally. Considering all factors and the current sales trend, Phillip Morris does not anticipate any out-of-stock situation in any core operating income market.

▲ **Financial Flexibility:** Phillip Morris looks financially stable amid the coronavirus pandemic. As of the end of the second quarter of 2020 (Jun 30 2020), the company had cash and cash equivalents of \$4,200 million, while its short-term debt stood at \$2,585 million. Additionally, at a juncture where many companies have suspended dividends, Philip Morris recently announced a dividend hike. It will now pay a quarterly dividend of \$1.20 per share, up 2.6% from the prior rate of \$1.17. The hiked dividend will be paid out on Oct 13, 2020 to shareholders of record as of Sep 24. Notably, the new rate takes up the company's annualized dividend to \$4.80 per share. Philip Morris currently has a dividend payout of 90.9%, dividend yield of 6.1% and free cash flow yield of 6.49%. With an annual free cash flow return on investment of 47.8%, significantly ahead of the industry's 18.7%; the increased dividend is likely to be sustainable.

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## Reasons To Sell:

▼ **2020 Sales View:** In its second-quarter earnings call, management said that it does not expect a near-term recovery in the duty-free business due to travel-related uncertainties. Further, the company expects complete enforcement of requirements for minimum retail selling price in Indonesia only by September 2020 (at the earliest). Additionally, total cigarette and heated tobacco unit shipment volumes are likely to decline (as discussed below). For 2020, Philip Morris expects net revenues (at cc) to drop in low-single digits (on an LFL basis). However, the same is expected to grow in low-single digits on excluding Indonesia hurdles and the duty-free business.

Philip Morris struggles with soft cigarette volumes due to reduced demand, stemming from rising health concerns and anti-tobacco campaigns.

▼ **Cigarette Category Weak:** Receding cigarette sales volumes has been taking a toll on Philip Morris' performance for quite some time now. In the second quarter of 2020, total cigarette and heated tobacco unit shipment volumes dropped 14.5% to 170.1 billion units. Cigarette shipment volumes fell 17.6% to 151.4 billion units in the quarter. Also, revenues from combustible products were down 19.1% to \$5,045 million due to declines in all regions. Shipment volumes were affected by declines in Indonesia, Philippines and Mexico, which in turn were negatively impacted by the pandemic-led restrictions, absence of income for daily wage earners and major price increases. Apart from this, cigarette shipment volumes are being adversely impacted by lower demand for cigarettes, stemming from anti-tobacco campaigns and consumers' rising health consciousness. Moreover, regulatory hurdles (discussed below) have created limitation for marketing cigarettes, further hindering its sales volumes.

Total cigarette and heated tobacco unit shipment volumes are likely to fall around 8-10% (on a like for like or LFL basis) in 2020, mainly due to the duty-free business as well as situation in Indonesia. Management also anticipates total industry volumes to decline roughly 7-9% (excluding China and the United States). The company expects the global economic scenario to weigh on total cigarette volumes in certain regions.

▼ **Restrictions on Tobacco Consumption:** The tobacco industry in general faces many challenges as governments around the world are imposing restrictions on tobacco companies which, in turn, are lowering cigarette consumption. The U.S. Food and Drug Administration (FDA) has made it mandatory for tobacco companies to use precautionary labels on cigarette packets to dissuade customers from smoking. In fact, per court orders, Reynolds American along with Altria Group and other cigarette makers have been directed to put up self-critical advertisements on television and newspapers to dissuade customers from smoking. Apart from this, the court wants tobacco companies to admit that cigarettes have been made addictive, through the issuance of corrective ads. To add to the woes, the FDA is now bent on drastically reducing nicotine in cigarettes to minimally addictive levels. The initiative was proposed in 2017 but was delayed, due to ongoing research. If enacted, lowering of nicotine levels will undoubtedly prove disastrous for cigarette manufacturing companies. In more recent developments, the FDA has raised concerns surrounding the consumption of e-cigarettes amongst the youth.

Apart from these, FDA had earlier announced that tobacco makers must seek marketing authorization for any tobacco product introduced after Feb 15, 2007. The law was extended by the FDA to include e-cigarettes, pipe tobacco, cigars and hookah. Also, the European Union and the FDA have proposed a ban on menthol in accordance with the Tobacco Control Act which essentially states that menthol cigarettes have an adverse impact on public health and suggests the removal of menthol.

▼ **Currency Headwinds:** Philip Morris' significant international presence exposes it to the risk of adverse currency fluctuations. In fact, currency had an unfavorable impact on the company's performance in the second quarter of 2020. Management expects currency to have adverse impact on adjusted earnings in 2020. That said, volatility in exchange rates always remains a concern.

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## Last Earnings Report

### Philip Morris Q2 Earnings Beat Estimates, Decline Y/Y

Philip Morris International reported second-quarter 2020 results, wherein adjusted earnings per share came in at \$1.29, which beat the Zacks Consensus Estimate of \$1.09. However, the bottom line declined 11.6% year over year. On excluding currency, earnings per share fell 7.5%.

Net revenues of \$6,651 million beat the Zacks Consensus Estimate of \$6,492 million. However, the top line decreased 13.6% from the figure reported in the year-ago quarter. Net revenues, on excluding currency headwinds, declined 9.5%. This was due to adverse volume/mix mainly stemming from soft cigarette volumes, somewhat made up by greater heated tobacco volumes. The company also received some respite from favorable pricing variance.

During the quarter under review, revenues from combustible products were down 19.1% to \$5,045 million due to declines in all regions. Revenues in the RRP's improved 9.5% to \$1,606 million. Total cigarette and heated tobacco unit shipment volumes dropped 14.5% to 170.1 billion units. Cigarette shipment volumes fell 17.6% to 151.4 billion units in the quarter, while heated tobacco unit shipment volumes of 18.7 billion units rose 24.3% year over year.

Adjusted operating income fell 12.7% to \$2,802 million. After excluding currency, adjusted operating income dropped 9.5% year over year. Adjusted operating margin expanded 0.4 points to 42.1%, while it remained flat on a constant-currency or cc basis.

### Region-Wise Performance

Net revenues in the **European Union** dropped 4% to \$2,475 million. Revenues slipped 0.1% at cc due to adverse volume/mix, largely countered by favorable pricing variance, courtesy of improved combustible pricing. Total shipment volumes in the region fell 9.8% to 44,544 million units. In **Eastern Europe**, net revenues fell 4.7% to \$783 million, while it grew 5.6% at cc. The upside can be attributed to favorable pricing and volume/mix. Total shipment volumes dropped 3.7% to 28,783 million units.

In the **Middle East & Africa** region, net revenues declined 29.9% (down 28.3% at cc) to \$704 million due to adverse volume/mix, partly made up by favorable pricing. Further, total shipment volumes fell 15.5% to 27,373 million units. Revenues in **South & Southeast Asia** fell 28.8% (down 25.1% at cc) to \$889 million. The downside was a result of adverse volume/mix as well as pricing variance (mainly in Indonesia). Shipment volumes collapsed 28.1% to 33,346 million units.

Revenues from **East Asia & Australia** fell 5.9% (down 5.1% at cc) to \$1,432 million due to unfavorable volume/mix, partly compensated by pricing gains. Total shipment volumes slipped 5.1% to 21,147 million units. Finally, revenues from **Latin America & Canada** slumped 30.2% (down 19.2% at cc) to \$368 million due to adverse volume/mix, somewhat compensated by improved pricing. Moreover, total shipment volumes declined 19.7% to 14,874 million units.

### Other Developments & Guidance

The company ended the quarter with cash and cash equivalents of \$4,200 million. Also, it had long-term debt of \$27,043 million and shareholders' deficit of \$10,120 million. During the quarter, Phillip Morris announced a quarterly dividend of \$1.17 per share. On Jul 7, the U.S. Food and Drug Administration (FDA) approved a version of IQOS's marketing as a modified risk tobacco product (MRTP). Also, on Mar 30, the company submitted a supplemental premarket tobacco product application (PMTA) with the FDA for the IQOS 3 tobacco heating device. Notably, total users of IQOS as of the end of the second quarter were estimated at about 15.4 million, including roughly 11.2 million who have shifted from smoking to IQOS.

Philip Morris has been on track to lower COVID-19-related business disruptions. The company notified that it currently has adequate access to inputs and is not encountering any major supply-related hurdles. Most of the company's production facilities are operational as of now, including all heated tobacco unit factories. However, some cigarette manufacturing facilities have been temporarily affected by government-imposed shutdowns or production limitations. They form about less than 5% of the company's total cigarette production capacity globally. Considering all factors and the current sales trends, Phillip Morris does not anticipate any out-of-stock situation in any core operating income market.

The company doesn't expect any national lockdown recurrence in any of its core international markets in the second half of 2020. It does not expect a near-term recovery in the duty-free business due to travel-related uncertainties. Further, the company expects complete enforcement of requirements for minimum retail selling price in Indonesia at the earliest by September 2020. Additionally, total cigarette and heated tobacco unit shipment volumes are likely to fall around 8-10% (on a like for like or LFL basis) in 2020, mainly due to the duty free business as well as situation in Indonesia. Management also anticipates total industry volumes to decline roughly 7-9% (excluding China and the United States). For 2020, Phillip Morris expects net revenues (at cc) to drop in low-single digits (on an LFL basis). The same is expected to grow in low-single digits on excluding Indonesia and the duty free business. CC-adjusted operating margin on an LFL basis is likely to jump more than 150 basis points.

All said, the company envisions adjusted earnings per share to be \$4.92-\$5.07 in 2020 compared with \$5.13 reported in the year-ago period. At cc, adjusted earnings per share are expected to grow 2-5% to \$5.23-\$5.38. For the third quarter, the company expects earnings per share to be almost in line with the second-quarter figure. This is likely to be backed by sequential revenue improvement, offset by factors like timing of various costs.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	2.45%
EPS Surprise	18.35%
Quarterly EPS	1.29
Annual EPS (TTM)	5.15

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## Recent News

### Philip Morris Revises 2020 Earnings View – Sep 10, 2020

Philip Morris now expects adjusted earnings per share (EPS) on a constant currency basis to grow 3.5-5% to \$5.31-\$5.38. Earlier, the company had expected the metric to grow 2-5% to \$5.23-\$5.38.

Further, the company expects third-quarter 2020 EPS to be largely in line with the year-ago quarter's adjusted EPS figure of \$1.43.

### Philip Morris Hikes Dividend – Sep 9, 2020

Philip Morris announced a dividend hike. It will now pay a quarterly dividend of \$1.20 per share, up 2.6% from the prior rate of \$1.17. The hiked dividend will be paid out on Oct 13, 2020 to shareholders of record as of Sep 24. Notably, the new rate takes up the company's annualized dividend to \$4.80 per share.

### Philip Morris Extends Deal With KT&G, RRP's Expansion on Track - Aug 17, 2020

Philip Morris announced plans to begin commercialization of KT&G's smoke-free alternatives outside South Korea. The move forms part of the company's agreement with KT&G, signed in January 2020. According to the disclosure, Philip Morris will launch KT&G's lil SOLID device and associated Fiit consumables in Russia. Philip Morris is also considering commercializing lil SOLID in other markets, in subsequent periods.

lil SOLID is a pin-based tobacco heating system that can be used four consecutive times without recharging. The device will be introduced by IQOS, and will be a part of Philip Morris' existing smoke-free alternatives portfolio in Russia, including the IQOS Tobacco Heating System. The deal, which extends for an initial period of three years, enables Philip Morris to distribute KT&G smoke-free products and its evolutions on an exclusive basis.

KT&G's smoke-free alternatives include products like tobacco heating systems, hybrid technologies (which combine heated tobacco and e-vapor technologies), and e-vapor products. The products distributed by Philip Morris outside South Korea will be subject to careful assessment prior to commercialization so that they meet all regulatory requirements of the market.

### Philip Morris' IQOS Gets FDA Nod to be Marketed as MRTP - Jul 7, 2020

Philip Morris International has been benefiting from focus on reduced risk products or RRP's, especially the IQOS device that has been a major hit. The company's efforts clearly got a boost with the latest move by the U.S. Food and Drug Administration (FDA). Incidentally, the FDA has approved IQOS's marketing as a modified risk tobacco product (MRTP).

The FDA authorized Phillip Morris' electrically heated tobacco system — IQOS — as an MRTP after ensuring that it heats tobacco and does not burn it. Further, consumers' shift from conventional cigarettes to IQOS lowers their exposure to injurious or potentially injurious chemicals. Clearly, the FDA's decision reinforces that the use of IQOS is likely to be beneficial for the overall population's health.

Notably, IQOS is the first and sole electronic nicotine product, which has been given marketing permits via the FDA's MRTP process. This is likely to be a big win for Phillip Morris, which generated one-fifth of net revenues from smoke-free products as of the end of 2019.

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## Valuation

Philip Morris shares are down 6.3% in the year-to-date period and up 13% over the trailing 12-month period. Stocks in the Zacks sub-industry are

down 12.9% in the year-to-date period, while the Zacks Consumer Staples sector declined 6.9%. Over the past year, the Zacks sub-industry is up 6.9%, while the sector declined 4.2%.

The S&P 500 index is up 3.1% in the year-to-date period and 13% in the past year.

The stock is currently trading at 13.98X forward 12-month earnings, which compares to 10.01X for the Zacks sub-industry, 19.28X for the Zacks sector and 21.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.71X and as low as 10.74X, with a 5-year median of 17.85X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$81 price target reflects 14.7X forward 12-month earnings.

The table below shows summary valuation data for PM

Valuation Multiples - PM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.98	10.01	19.28	21.57
	5-Year High	23.71	21.23	22.37	23.44
	5-Year Low	10.74	9.96	16.62	15.26
	5-Year Median	17.85	15.45	19.56	17.63
P/S F12M	Current	3.99	3.13	9.2	3.99
	5-Year High	6.47	6.8	11.15	4.29
	5-Year Low	3.01	3.07	8.12	3.11
	5-Year Median	4.69	4.37	9.89	3.66
EV/EBITDA F12M	Current	10.95	9.11	34.18	14.27
	5-Year High	16.5	17.13	37.28	19.68
	5-Year Low	8.59	7.88	25.83	13.54
	5-Year Median	12.89	12.33	33.73	16.52

As of 09/22/2020

Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Top 30% (76 out of 251)



Source: Zacks Investment Research

## Top Peers

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

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

Industry Comparison Industry: Tobacco				Industry Peers		
	PM	X Industry	S&P 500	BTI	IMBBY	MO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	B
Market Cap	121.20 B	1.46 B	22.78 B	77.45 B	16.34 B	72.14 B
# of Analysts	9	1	13	5	2	8
Dividend Yield	6.01%	6.01%	1.7%	8.09%	6.14%	8.86%
Value Score	C	-	-	B	A	C
Cash/Price	0.03	0.08	0.07	0.08	0.07	0.07
EV/EBITDA	12.63	7.68	12.89	8.89	NA	41.75
PEG F1	1.85	2.16	2.91	1.42	NA	2.25
P/B	NA	1.47	3.17	0.90	2.61	12.47
P/CF	13.38	8.33	12.48	6.32	3.38	8.93
P/E F1	15.16	10.33	20.84	7.95	5.22	9.01
P/S TTM	1.59	1.59	2.44	NA	NA	2.82
Earnings Yield	6.53%	8.58%	4.53%	12.57%	19.18%	11.10%
Debt/Equity	-2.67	0.29	0.70	0.63	2.19	4.76
Cash Flow (\$/share)	5.82	3.33	6.93	5.35	5.11	4.35
Growth Score	A	-	-	C	A	B
Historical EPS Growth (3-5 Years)	4.84%	9.06%	10.41%	NA	NA	10.81%
Projected EPS Growth (F1/F0)	-2.16%	2.46%	-4.56%	2.95%	-1.64%	2.07%
Current Cash Flow Growth	1.35%	1.35%	5.26%	8.98%	-3.71%	4.57%
Historical Cash Flow Growth (3-5 Years)	-2.07%	4.91%	8.49%	12.83%	1.08%	8.93%
Current Ratio	1.13	1.28	1.35	0.89	0.75	0.75
Debt/Capital	NA%	45.39%	42.95%	38.46%	68.66%	82.66%
Net Margin	9.54%	3.75%	10.25%	NA	NA	-3.57%
Return on Equity	-80.24%	9.59%	14.66%	NA	NA	109.11%
Sales/Assets	1.90	0.82	0.50	NA	NA	0.50
Projected Sales Growth (F1/F0)	-4.23%	-0.03%	-1.44%	-0.03%	-71.18%	2.92%
Momentum Score	A	-	-	F	C	B
Daily Price Change	-0.32%	-2.23%	-2.45%	-2.23%	-3.25%	-2.56%
1-Week Price Change	-3.88%	0.00%	0.79%	1.59%	2.53%	-8.60%
4-Week Price Change	-2.26%	-2.51%	-3.66%	-2.76%	1.71%	-11.85%
12-Week Price Change	10.38%	-0.79%	5.24%	-13.57%	-8.19%	-1.05%
52-Week Price Change	8.10%	-15.48%	-2.08%	-5.53%	-33.76%	-5.04%
20-Day Average Volume (Shares)	3,901,043	159,259	2,038,285	1,976,471	120,556	9,298,058
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	2.24%	0.00%
EPS F1 Estimate 4-Week Change	0.05%	0.00%	0.00%	-0.47%	3.20%	0.00%
EPS F1 Estimate 12-Week Change	2.41%	2.69%	4.10%	1.63%	5.09%	1.50%
EPS Q1 Estimate Monthly Change	4.19%	0.00%	0.00%	NA	NA	0.00%

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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