

## Quanta Services Inc. (PWR)

**\$74.80** (As of 01/06/21)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: D

### Summary

Shares of Quanta Services have outperformed the industry in the past six months. The outperformance can be primarily attributed to solid base business activities, courtesy of robust spending by electric utilities on grid modernization and infrastructure hardening, particularly in the western United States, as well as by gas utilities on distribution system modernization and safety programs. Also, increased focus on acquisition initiatives bode well. Earnings estimates for 2021 have moved up over the past 60 days, depicting analysts optimism regarding the stock growth potential. However, lower contribution from the Pipeline and Industrial Infrastructure Services unit has been denting its performance. COVID-19 impacts, regulatory challenges and risks like project delays, stiff competition, along with oil & gas volatility also remain concerns.

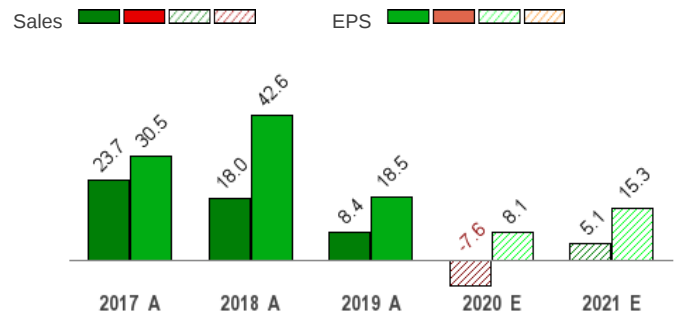
### Price, Consensus & Surprise



### Data Overview

|                                |                                |
|--------------------------------|--------------------------------|
| 52-Week High-Low               | \$77.40 - \$23.77              |
| 20-Day Average Volume (Shares) | 1,424,028                      |
| Market Cap                     | \$10.4 B                       |
| Year-To-Date Price Change      | 3.9%                           |
| Beta                           | 1.24                           |
| Dividend / Dividend Yield      | \$0.24 / 0.3%                  |
| Industry                       | Engineering - R and D Services |
| Zacks Industry Rank            | Bottom 28% (182 out of 254)    |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 26.1%      |
| Last Sales Surprise           | 0.2%       |
| EPS F1 Estimate 4-Week Change | -0.5%      |
| Expected Report Date          | 02/25/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 21.1       |
| P/E F1                        | 18.0       |
| PEG F1                        | 1.2        |
| P/S TTM                       | 0.9        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 2,734 E | 2,799 E | 3,167 E | 3,033 E | 11,765 E |
| 2020 | 2,764 A | 2,506 A | 3,020 A | 2,907 E | 11,197 E |
| 2019 | 2,807 A | 2,839 A | 3,353 A | 3,113 A | 12,112 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.72 E | \$1.07 E | \$1.33 E | \$1.09 E | \$4.15 E |
| 2020 | \$0.47 A | \$0.74 A | \$1.40 A | \$0.98 E | \$3.60 E |
| 2019 | \$0.96 A | \$0.31 A | \$1.14 A | \$0.93 A | \$3.33 A |

\*Quarterly figures may not add up to annual.

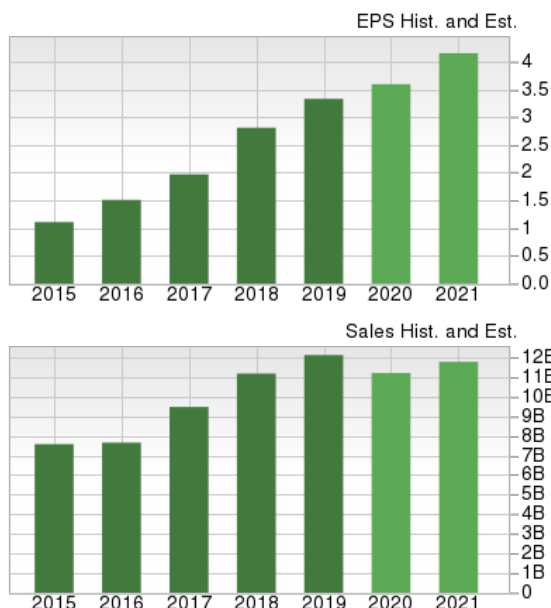
The data in the charts and tables, except sales and EPS estimates, is as of 01/06/2021. The reports text and the analyst-provided sales and EPS estimates are as of 01/07/2021.

## Overview

Quanta Services is a leading national provider of specialty contracting services, and one of the largest contractors serving the transmission and distribution sector of the North American electric utility industry. Quanta Services has operations in United States, Canada, Australia and other selected international markets. The company has two reportable segments that are as follows:

The Electric Power Infrastructure Services segment (which contributed 59% to 2019 revenues) provides comprehensive network solutions to customers in the electric power industry. Services performed include the design, installation, upgrade, repair and maintenance of electric power transmission and distribution networks, and sub-station facilities; emergency restoration services; installation of "smart grid" technology on electric power networks; supports the development of renewable energy generation, including solar, wind, hydro power and backup natural gas generation facilities, and related switchyards and transmission infrastructure; and communications infrastructure services.

The Pipeline and Industrial Infrastructure Services segment (41%) provides comprehensive network solutions to customers involved in the transportation of natural gas, oil and other pipeline products. Services include the design, installation, repair and maintenance of oil and gas transmission and distribution systems and related trenching and directional boring services. Also, this segment provides pipeline protection services, integrity testing, rehabilitation and replacement, and the fabrication of pipeline support systems and related structures and facilities for natural gas utilities and midstream companies. It also provides high-pressure and critical-path turnaround services to the downstream and midstream energy markets and instrumentation and electrical services, piping, fabrication and storage tank services.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Robust Growth Strategy:** Quanta Services is pursuing a three-pronged growth strategy focusing on timely delivery of projects to exceed customer expectation; leverage on core business to expand in complementary adjacent service lines and continuation of exploring new service lines. Overall, the company's engineering and project management capabilities allow it to capitalize on market trends that are currently skewed toward an engineering, procurement and construction or EPC model. The company ended the third quarter with a total backlog of \$15.1 billion and 12-month backlog of \$8.1 billion. This compares favorably with \$13.3 billion of total backlog and \$7.6 billion of 12-month backlog a year ago. This demonstrates the strength of its core operations. It expects utility, communications, and certain pipeline and industrial infrastructure services — which currently account for approximately 80-90% of revenues — to remain robust in 2020. Quanta Services' optimism stems from healthy backlog levels which are expected to grow further.

Solid end-market prospects of its segment, namely Electric Power, are likely to boost profit.

▲ **Strong Electric Power Operations:** Electric Power operations continued to execute well from a top line perspective. Segment revenues, which comprise revenues from base business activities including communications operations, grew 7.5% for the first nine months of 2020 from the comparable year-ago period. Solid performance was backed by base business activities, courtesy of robust spending by electric utilities on grid modernization and infrastructure hardening, particularly in the western United States, as well as by gas utilities on distribution system modernization and safety programs. It is important to note that approximately 65% of Quanta's revenues is directly tied to regulated electric and gas utility customers, which is core to its business.

As of Sep 30, 2020, the segment's 12-month backlog was \$5.9 billion and total backlog was \$10.8 billion, up from \$4.9 billion and \$8.6 billion, respectively, a year ago. Prospects of the Electric Power segment remain robust, given customers' investment in grid modernization programs to accommodate a changing fuel generation mix toward natural gas and renewables, intended to address the aging infrastructure, strengthen systems for resiliency against extreme weather conditions, and support long-term economic growth.

The company has been witnessing solid Telecom revenues, which are included within the Electric Power segment, mainly from U.S. operations. U.S. telecom revenues have been strong since 2017, when the company officially reentered into the U.S. telecommunications market. With the larger diameter pipeline market expanding, and a multi-year cycle ahead of it, the company remains optimistic about its communications infrastructure services operations. Quanta Services continues to make inroads with customers as they deploy capital for fiber-to-the-home and business, long-haul fiber, and the early stages of 5G. Meanwhile, the North America electric transmission and distribution markets are expected to act as one of the key growth drivers for the company going forward, as the region continues to deploy more capital for transmission and distribution upgrades to improve system reliability, and deliver renewable electricity from new generation sources to the demand centers.

▲ **Acquisitions/Partnerships to Boost Market Share & Backlog:** Quanta Services sees acquisitions as a fundamental component of its strategy to boost market share and develop incremental backlog. The company acquired five businesses in the first nine months of 2020. For the first nine months of 2020, acquired businesses contributed \$325 million to total revenues.

In July 2020, it acquired a Chicago, IL-based leading professional engineering firm that provides infrastructure engineering and design services to electric utilities, gas utilities and communications services companies, as well as permitting and utility locating services. The acquisition enhanced Quanta's turnkey and communications engineering capabilities in core utility markets.

Again, in the first-quarter 2020, the company acquired a Canada-based industrial services business that performs catalyst handling services — including changeover and shutdown maintenance — for customers in refining and chemical industries. Also, it acquired an electric power infrastructure business located in the United States, which primarily provides underground conduit services. Quanta Services invested \$400 million in the strategic acquisition of seven companies in 2019 (compared to four buyouts in 2018). 2019 and 2018 buyouts strategically expanded its domestic electric power and communications service offerings.

▲ **Strong Liquidity Position:** Quanta Services has been maintaining a strong liquidity position to navigate through the current environment. The company ended the third quarter with \$2.2 billion liquidity, including \$216.9 million cash and cash equivalents. Also, on Sep 22, 2020, it closed the sale of \$1 billion aggregate principal amount of 2.9% senior notes due 2030. It received net proceeds from the offering of \$986.7 million, which, together with cash on hand, were used to repay the term loans outstanding under credit agreement in aggregate principal amount of \$1.21 billion. Also on Sep 22, the company entered into an amended and restated credit agreement that increased aggregate revolving commitments from \$2.14 billion to \$2.51 billion, as well as extended the maturity date from October 2022 to September 2025.

Its current cash level is sufficient to meet the short-term obligation of \$97.4 million, down sequentially from \$162.2 million. Long-term debt obligations (including operating lease liabilities, net of current portion) totaled \$1.39 billion, down from \$1.5 billion reported at second quarter-end.

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## Reasons To Sell:

▼ **Coronavirus Woes to Ail Near-Term Results:** Overall energy markets have been facing challenges due to COVID-19. Customers have started restricting onsite activity for other services. Also, they have been deferring maintenance and certain turnaround projects to the latter part of this year or 2021. The company expects these headwinds to persist in the near future.

▼ **Absence of Larger Pipeline Projects:** Volatility in Pipeline and Industrial operations, and consumer spending have been affecting the company's projects, as well as orders. The segment's revenues for the first nine months of 2020 were down 29.6% year over year, primarily due to the absence of larger pipeline projects.

▼ **Regulatory Hurdles/Intense Competition:** Quanta Services operates in a highly uncertain environment. Both the company and its customers face stringent regulatory and permit hurdles for projects, especially regarding product quality, safety measures and environmental protection. Moreover, the company operates in a highly competitive industry, which already contains numerous small owner-operated private companies, few public companies and several large regional companies. Low barriers-to-entry in the industry and adequate financial resources as well as access to technical expertise may further intensify the competition.

Additionally, as a large chunk of Quanta Services' business involves outdoor activities, it is vulnerable to unfavorable weather conditions. Traditionally, it experiences lower gas distribution business activity in the first quarter due to seasonal weather, which impacts revenues and pressurizes margins.

▼ **Cyclical Nature of the Business:** Demand for Quanta's services is cyclical and hence, is largely vulnerable to reduction in government and private industrial spending. Historically, volatility in commodity prices has negatively impacted the oil & gas business as well as the business regions whose economies are substantially dependent on commodity prices.

Persistent volatility in the oil and gas market, given declining prices and decrease in spending levels, is hurting the company's Pipeline and Industrial Infrastructure Services segment.

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Quanta Services remains vulnerable to COVID-19 impacts, regulatory challenges and risks like project delays, stiff competition, and oil & gas volatility.

## Last Earnings Report

### Quanta (PWR) Q3 Earnings & Revenues Beat Estimates

Quanta Services Inc. reported impressive earnings for third-quarter 2020. Adjusted earnings not only surpassed the Zacks Consensus Estimate but also grew impressively on a year-over-year basis. Meanwhile, revenues for the quarter beat the consensus mark but declined on a year-over-year basis. Backed by the solid results, the company raised 2020 expectations for net income, EBITDA and earnings per share.

#### Detailed Discussion

For the quarter under review, Quanta reported adjusted earnings of \$1.40 per share that comfortably topped the consensus estimate of \$1.11 by 26.1% and increased 22.8% from the year-ago figure of \$1.14.

Total revenues of \$3,020.2 million surpassed the consensus mark of \$3,015 million by 0.2% but decreased 9.9% year over year due to lower contribution from its Pipeline and Industrial Infrastructure Services segment. Operating margin for the quarter rose 180 basis points (bps) from a year ago to 8%. Adjusted EBITDA of \$353.3 million improved 13.2% from \$312.2 million a year ago.

The company reported 12-month backlog of \$8,143 million and total backlog of \$15,071.6 million at September-end. At September 2019-end, 12-month backlog came in at \$7,558.9 million and total backlog was \$13,282.1 million. Moreover, the reported metrics increased from 2019-end respective figures of \$7,947.1 million and \$15,004.9 million.

#### Segment Details

The company reports results under two reportable segments: Electric Power Infrastructure Services segment (accounting for 69.8% of third-quarter revenues), and Pipeline and Industrial Infrastructure Services (30.2%). Third-quarter revenues from Electric Power Infrastructure Services totaled \$2,107.6 million, increasing 12.3% year over year. Operating margins expanded 330 bps to 12.7%. The segment's 12-month backlog was \$5,949.4 million, up from \$4,979.1 million a year ago. Total backlog of \$10,792.1 million also grew from \$8,638.8 million reported in the prior-year quarter.

Within the Pipeline and Industrial Infrastructure Services segment, revenues declined 38.2% from the prior-year quarter to \$912.5 million. Operating margin of 8.4% also contracted 60 bps year over year. The segment's 12-month backlog totaled \$2,193.6 million, down from \$2,579.8 million a year ago. Also, total backlog declined to \$4,279.5 million from \$4,643.3 million in the prior-year quarter.

#### Liquidity

As of Sep 30, 2020, Quanta had cash and cash equivalents of \$216.9 million compared with \$164.8 million at 2019-end. The company's long-term debt (net of current maturities) amounted to \$1,202.4 million, up from \$1,292.2 million as of Dec 31, 2019.

Net cash provided by operating activities was \$114.9 million for the third quarter compared with \$91.2 million in the prior-year quarter. Free cash flow for the quarter came in at \$70 million compared with \$30.3 million reported in the year-ago quarter.

#### Updates 2020 Guidance

The company now expects revenues in the range of \$11.1-\$11.3 billion versus the prior expectation of \$11-\$11.4 billion. It expects adjusted earnings between \$3.52 and \$3.64 per share compared with \$3.18-\$3.48 expected earlier. The mid-point of the current projection is above the year-ago figure of \$3.33 per share. Adjusted EBITDA is projected within \$986 million to \$1.01 billion versus \$903-\$964 million projected previously. Meanwhile, Quanta's full-year non-GAAP free cash flow projection remains stable at \$600-\$800 million. Importantly, the above-mentioned projections are inclusive of the expected results from its LATAM operations. LATAM operations are expected to generate revenues of \$10-\$15 million. Operating loss is expected in the range of \$55-\$60 million, while loss per share is likely to be in the band of 38-41 cents.

#### Recent Achievements

In October, Quanta entered into a contract to construct the New England Clean Energy Connect Transmission Project. Notably, the work requires construction of approximately 145 miles of new, high-voltage direct current transmission line from the Canadian border to a substation in Lewiston, Maine, for delivering renewable hydropower. The company expects the work to begin during fourth-quarter 2020 and anticipates completing it by first-quarter 2023.

Apart from this, the company completed three acquisitions during third-quarter 2020. In July, it closed the acquisition of a leading professional engineering firm based in Chicago, IL, that provides infrastructure engineering and design services to electric utilities, gas utilities and communications services companies. In August, the company completed the acquisition of a utility contractor that provides electric power distribution, transmission and substation maintenance, as well as construction services, primarily in the Southeastern and Mid-Atlantic regions of the United States.

In September, it completed the acquisition of a communications contractor that primarily serves the Mountain West region of the United States and specializes in the deployment of short- and long-haul fiber optic cable as well as utilities, and engineering and design of small and large-scale projects.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 29, 2020 |
| Sales Surprise   | 0.18%        |
| EPS Surprise     | 26.13%       |
| Quarterly EPS    | 1.40         |
| Annual EPS (TTM) | 3.54         |

## Valuation

Quanta Services' shares are up 100.3% in the past six-month period and 84.2% in trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 51.4% and 26.9% in the past six-month, respectively. Over the past year, the Zacks sub-industry and the sector are up 5.8% and 16.7%, respectively.

The S&P 500 index is up 18.4% in the past six-month period and 16.5% in the past year.

The stock is currently trading at 19.95X forward 12-month earnings, which compares to 20.68X for the Zacks sub-industry, 16.33X for the Zacks sector and 22.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.43X and as low as 6.64X, with a 5-year median of 13.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79 price target reflects 207X forward 12-month earnings.

The table below shows summary valuation data for PWR

| Valuation Multiples - PWR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 19.95 | 20.68        | 16.33  | 22.89   |
|                           | 5-Year High   | 25.43 | 22.59        | 18.98  | 23.79   |
|                           | 5-Year Low    | 6.64  | 10.66        | 10.76  | 15.3    |
|                           | 5-Year Median | 13.63 | 14.45        | 15.96  | 17.82   |
| P/B TTM                   | Current       | 2.5   | 2.8          | 4.83   | 6.41    |
|                           | 5-Year High   | 2.5   | 2.82         | 6.72   | 6.46    |
|                           | 5-Year Low    | 0.84  | 0.81         | 1.72   | 3.74    |
|                           | 5-Year Median | 1.42  | 1.94         | 3.31   | 4.94    |
| EV/EBITDA TTM             | Current       | 12    | 10.59        | 24.34  | 16.88   |
|                           | 5-Year High   | 12.02 | 10.66        | 25.06  | 17.02   |
|                           | 5-Year Low    | 5.21  | 5.42         | 12.36  | 9.56    |
|                           | 5-Year Median | 8.75  | 7.73         | 17.96  | 13.21   |

As of 01/06/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 254)



## Top Peers

| Company (Ticker)                        | Rec          | Rank |
|-----------------------------------------|--------------|------|
| Gates Industrial Corporation PLC (GTES) | Outperform   | 3    |
| Willdan Group, Inc. (WLDN)              | Outperform   | 3    |
| AECOM (ACM)                             | Neutral      | 3    |
| Dycom Industries, Inc. (DY)             | Neutral      | 3    |
| Jacobs Engineering Group Inc. (J)       | Neutral      | 3    |
| KBR, Inc. (KBR)                         | Neutral      | 3    |
| MasTec, Inc. (MTZ)                      | Neutral      | 3    |
| Fluor Corporation (FLR)                 | Underperform | 5    |

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

| Industry Comparison Industry: Engineering - R And D Services |           |            |           | Industry Peers |              |           |
|--------------------------------------------------------------|-----------|------------|-----------|----------------|--------------|-----------|
|                                                              | PWR       | X Industry | S&P 500   | ACM            | FLR          | KBR       |
| Zacks Recommendation (Long Term)                             | Neutral   | -          | -         | Neutral        | Underperform | Neutral   |
| Zacks Rank (Short Term)                                      | 3         | -          | -         | 3              | 5            | 3         |
| VGM Score                                                    | B         | -          | -         | A              | D            | A         |
| Market Cap                                                   | 10.39 B   | 3.19 B     | 26.57 B   | 8.26 B         | 2.52 B       | 4.49 B    |
| # of Analysts                                                | 6         | 3          | 13        | 3              | 1            | 4         |
| Dividend Yield                                               | 0.32%     | 0.00%      | 1.44%     | 0.00%          | 0.00%        | 1.27%     |
| Value Score                                                  | B         | -          | -         | B              | D            | B         |
| Cash/Price                                                   | 0.02      | 0.08       | 0.06      | 0.23           | 0.94         | 0.22      |
| EV/EBITDA                                                    | 12.34     | 12.22      | 14.91     | 13.65          | -2.09        | 10.31     |
| PEG F1                                                       | 1.27      | 1.76       | 2.65      | 1.30           | NA           | NA        |
| P/B                                                          | 2.50      | 2.64       | 3.70      | 2.58           | 1.93         | 2.62      |
| P/CF                                                         | 14.52     | 11.96      | 14.31     | 15.04          | 4.01         | 12.89     |
| P/E F1                                                       | 18.41     | 20.07      | 20.47     | 21.06          | 19.12        | 15.28     |
| P/S TTM                                                      | 0.91      | 1.01       | 2.96      | 0.62           | 0.16         | 0.78      |
| Earnings Yield                                               | 5.55%     | 4.86%      | 4.77%     | 4.74%          | 5.25%        | 6.54%     |
| Debt/Equity                                                  | 0.29      | 0.59       | 0.70      | 0.60           | 1.28         | 0.77      |
| Cash Flow (\$/share)                                         | 5.15      | 1.94       | 6.93      | 3.65           | 4.46         | 2.44      |
| Growth Score                                                 | A         | -          | -         | A              | C            | A         |
| Historical EPS Growth (3-5 Years)                            | 30.99%    | 10.50%     | 9.71%     | -5.53%         | -20.51%      | 17.83%    |
| Projected EPS Growth (F1/F0)                                 | 15.53%    | 17.97%     | 12.15%    | 21.08%         | 144.82%      | 20.82%    |
| Current Cash Flow Growth                                     | 14.87%    | 7.68%      | 5.22%     | -16.55%        | 10.94%       | 23.99%    |
| Historical Cash Flow Growth (3-5 Years)                      | 4.47%     | 6.39%      | 8.33%     | -11.30%        | -8.15%       | 7.96%     |
| Current Ratio                                                | 1.69      | 1.88       | 1.38      | 1.24           | 1.41         | 1.54      |
| Debt/Capital                                                 | 22.44%    | 37.46%     | 41.97%    | 37.42%         | 56.21%       | 43.45%    |
| Net Margin                                                   | 3.45%     | -0.47%     | 10.40%    | -1.41%         | -3.63%       | -0.57%    |
| Return on Equity                                             | 11.61%    | 6.84%      | 15.07%    | 9.37%          | 10.56%       | 13.98%    |
| Sales/Assets                                                 | 1.38      | 0.98       | 0.50      | 0.97           | 2.10         | 1.11      |
| Projected Sales Growth (F1/F0)                               | 5.07%     | 2.96%      | 5.91%     | -0.53%         | -8.84%       | 1.41%     |
| Momentum Score                                               | D         | -          | -         | F              | F            | B         |
| Daily Price Change                                           | 7.52%     | 2.73%      | 2.11%     | 9.18%          | 6.23%        | 4.45%     |
| 1-Week Price Change                                          | 1.54%     | 0.24%      | 1.16%     | 2.30%          | -3.09%       | 4.04%     |
| 4-Week Price Change                                          | 2.33%     | 6.19%      | 2.33%     | 11.44%         | -1.81%       | 9.31%     |
| 12-Week Price Change                                         | 22.99%    | 21.52%     | 12.27%    | 20.06%         | 71.22%       | 28.96%    |
| 52-Week Price Change                                         | 84.24%    | 10.04%     | 7.29%     | 25.36%         | -5.89%       | 2.57%     |
| 20-Day Average Volume (Shares)                               | 1,424,028 | 64,501     | 1,691,401 | 1,272,988      | 1,224,282    | 1,306,515 |
| EPS F1 Estimate 1-Week Change                                | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%     |
| EPS F1 Estimate 4-Week Change                                | -0.49%    | 0.00%      | 0.05%     | 0.00%          | -26.82%      | 0.00%     |
| EPS F1 Estimate 12-Week Change                               | 2.14%     | 2.68%      | 2.53%     | 7.72%          | -22.80%      | 11.65%    |
| EPS Q1 Estimate Monthly Change                               | -7.43%    | 0.00%      | 0.00%     | 0.00%          | -28.36%      | 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    | <b>B</b> |
| Growth Score   | <b>A</b> |
| Momentum Score | <b>D</b> |
| VGM Score      | <b>B</b> |

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

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## Disclosures

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## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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