

Rite Aid Corporation (RAD)

\$13.02 (As of 08/31/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

Shares of Rite Aid have declined in the past three months, despite the better-than-expected first-quarter fiscal 2021 result. It expects uncertainty regarding the COVID-19 pandemic to persist in the quarters ahead. Soft margins owing to rising SG&A expenses also remain woes. Going ahead, it predicts adverse impacts on acute prescription volumes, SG&A expenses and Pharmacy Services Segment memberships. Nonetheless, it reported narrower than expected loss in the fiscal first-quarter, while sales beat the estimates. Solid revenues in pharmacy services and retail pharmacy segments coupled with a rise in the prescription count drove first quarter results. It is witnessing solid demand from the stocking of medications by customers. Further, the EnvisionRxOptions witnessed solid growth, backed by an increase in Medicare Part D membership.

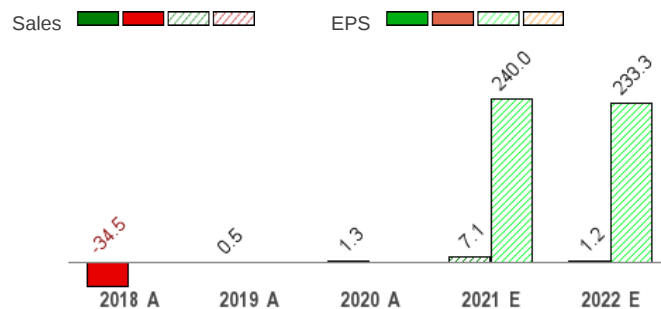
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$23.88 - \$6.09
20-Day Average Volume (Shares)	2,130,966
Market Cap	\$711.5 M
Year-To-Date Price Change	-15.8%
Beta	0.77
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Top 47% (119 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	92.6%
Last Sales Surprise	7.7%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	09/24/2020
Earnings ESP	0.0%
P/E TTM	52.1
P/E F1	26.0
PEG F1	26.0
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	6,146 E	5,829 E	5,817 E	5,973 E	23,764 E
2021	6,027 A	5,757 E	5,763 E	5,943 E	23,490 E
2020	5,373 A	5,366 A	5,462 A	5,727 A	21,928 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.10 E	\$0.03 E	\$0.47 E	\$0.73 E	\$1.70 E
2021	-\$0.04 A		\$0.11 E	\$0.34 E	\$0.51 E
2020	-\$0.14 A	\$0.12 A	\$0.54 A	-\$0.37 A	\$0.15 A

*Quarterly figures may not add up to annual.

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

Overview

Rite Aid Corporation, headquartered in Camp Hill, PA, is the third largest retail drugstore in the United States, based on revenues and number of stores. As of Feb 29, 2020, the company operated 2,400 retail pharmacy stores across 18 states. Through EnvisionRxOptions, the company also provides pharmacy benefit management to nearly 1,900 clients and 3.4 million members.

The company operates its business in two distinct segments – Retail Pharmacy Segment and Pharmacy Services Segment.

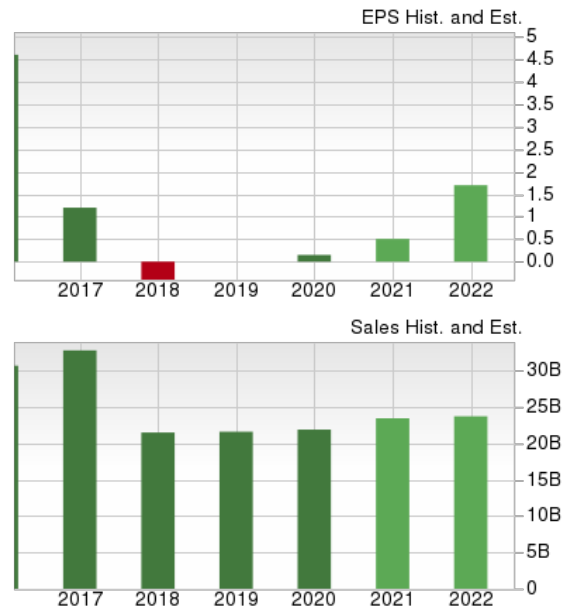
Retail Pharmacy Segment (70% of FY20 Revenues) consists of Rite Aid stores, RediClinic and Health Dialog. *Rite Aid stores* offer prescription drugs and a wide assortment of other merchandise called "front-end" products. Front-end products include over-the-counter (OTC) medications, health and beauty aids, personal care items, cosmetics, household items, food and beverages, greeting cards, seasonal merchandise and other convenience products.

RediClinic is an operator of retail clinics. RediClinics are staffed by board-certified nurse practitioners and physician assistants, who are trained and licensed to treat common conditions and provide preventative services, in collaboration with local physicians affiliated with a leading health care system in each market. The company operated a total of 65 RediClinics at the end of fiscal 2019.

Health Dialog provides healthcare coaching and disease management services to health plans and employers. Health Dialog provides these services using a call in line staffed by nurse practitioners and through an on-line platform.

Pharmacy Services Segment (30% of FY20 Revenues) comprises the EnvisionRx – its PBM operations that have been rebranded as EnvisionRxOptions. This segment provides a broad range of pharmacy benefits and services, including both transparent and traditional PBM options through its EnvisionRx and MedTrakRx PBMs, EnvisionPharmacies, EnvisionInsurance, EnvisionSavings and Laker Software.

In January 2019, Rite Aid proposed a 1-for-20 reverse stock split to regain compliance with NYSE minimum average share price listing requirements. The company's shares started trading on a split-adjusted basis from Apr 22.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Q1 Results:** Rite Aid reported first-quarter fiscal 2021 results, wherein loss was narrower than expected, while sales beat the Zacks Consensus Estimate. Also, revenues grew 12.2% in the reported quarter. Further, retail pharmacy segment revenues grew 6.7% due to higher same-store sales. In the pharmacy services segment, revenues rose 26.2% owing to a rise in Medicare Part D membership. Moreover, retail pharmacy same-store sales advanced 6.6%, thanks to a 14.2% and 2.2% rise in front-end and pharmacy sales, respectively. The company's decision to keep stores open amid the coronavirus outbreak and enhanced digital capabilities to provide essential services to customers aided results. Solid growth in prescription deliveries to the tune of 86%, driven by free home delivery services as well as a sturdy performance at Elixir, also contributed to the quarterly growth. Shares of Rite Aid declined 1.8% in the past three months compared with the industry's fall of 4.7%.

Rise in prescription deliveries and sturdy performance at Elixir drove Rite Aid's Q1 results. Also, expansion of delivery services in the wake of the COVID-19 crisis bode well.

▲ **Rite Aid's Expands Services Amid COVID-19:** Rite Aid is benefiting from the expansion of services to its customers amid the COVID-19 crisis. The company has hired 5,000 full-time and part-time associates across the United States to serve customers better. Notably, the company will provide home service delivery to customers with an eligible prescription. Also, the customers will have the benefit of zero delivery fees. Apart from this, it will also offer pick up services for prescriptions and over-the-counter products, and customers can use the drive-through option available at more than 50% of its retail locations. Moreover, it is progressing well with the rollout of the Buy Online Pickup In Store initiative, which will offer better drive through and curbside pickup options. Apart from these, Rite Aid expanded the Instacart delivery facility to more than 2,400 locations and received positive feedback for the same. Moreover, the surge in demand for Tele Health in the wake of COVID-19 has led the company to accelerate the launch of Rite Aid Virtual Care.

▲ **Growth Efforts:** As part of its corporate strategy and growth plan, Rite Aid remains focused on strengthening its foothold in mid-market PBM, innovation across its retail and mail-order pharmacy channels, enhancing in-store experience by curated digital offerings, improved merchandises and rebranding its image with a new logo. The company continues to witness solid performance in PBM, in terms of mail orders, with client retention rate of nearly 95% for the 2021 selling period. This can be mainly attributable to customers increasingly stocking up of 90-day refills in the wake of COVID-19. Notably, sales from mail orders grew 22% year over year on the back of rise in Medicare Part D membership and COVID-19. However, it noted that post reopening early refill limits on 30-day prescriptions will no longer be waived off. Apart from this, its new RxEvolution strategy with the help of which Rite Aid is likely to become a leader in mid-market PBM, remains on track.

▲ **Increased Focus on EnvisionRxOptions:** Rite Aid remains on track with its growth strategy, which focuses on leveraging unique opportunities such as EnvisionRxOptions (which is to be renamed Elixir), enhancing the front-end channels and transforming processes to deliver operational efficiency. It continues to invest in the expansion of EnvisionRxOptions, especially its services, technologies and clinical offerings. In first-quarter fiscal 2021, the EnvisionRxOptions witnessed solid growth, backed by an increase in the Medicare Part D membership. Going forward, management is optimistic about the company on the back of EnvisionRxOptions as well as health and wellness offerings.

▲ **Financial Flexibility:** Despite long-term debt (including operating lease liabilities) of \$6,270.4 million as of May 30, 2020 and debt-to-capitalization ratio of 0.65, which stands higher than the industry's ratio of 0.60, Rite Aid looks quite stable from a liquidity stand point. The company boasts liquidity of roughly \$1.7 billion, with a revolving credit facility of nearly \$1.52 billion. Further, it cut down on expenses related to shrink, advertising, rent, travel and call center. This is expected to result in cost savings of more than \$40 million in fiscal 2021.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering the price-to-earnings (P/E) ratio, Rite Aid looks overvalued when compared with the industry and the S&P 500 index. The stock has a trailing 12-month P/E ratio of 52.08x, which is above median level of 50.44x and below the high level of 122.93x scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry and the S&P 500 are currently pegged at 8.05x and 23.71x, respectively.
- ▼ **Uncertain Outlook:** Despite better-than-expected first-quarter results, management withdrew guidance for fiscal 2021 due to continued uncertainty regarding the COVID-19 pandemic. Going ahead, it also anticipates adverse impacts on acute prescription volumes, SG&A expenses and Pharmacy Services Segment memberships.
- ▼ **High Costs Lead to Soft Margins in Q1:** During the fiscal first quarter, Rite Aid's gross profit increased 4.9% from the prior-year quarter, while gross margin contracted 43 basis points to 26.2% due to higher markdowns. Adjusted EBITDA decreased 2.6%, while adjusted EBITDA margin contracted 30 bps to 1.8%. The metric included a negative impact of \$30 million due to the COVID-19 pandemic. Sluggishness in margins can be attributed to elevated SG&A expenses that rose 3.5% year over year to \$1,109 million. Persistent rise in SG&A expenses have been hurting the company's bottom line for the past few quarters.
- ▼ **Competitive Risks:** Rite Aid's generic drug sales have been adversely affected by Wal-Mart's strategy of entering the retail generic drug market. Due to Wal-Mart's wide array of manufacturers in India, Israel, and the U.S., the mass merchant offers generic drugs at a discounted price compared with its rival companies.

Rite Aid withdrew guidance for fiscal 2021 due to continued uncertainty in relation to the COVID-19 pandemic. Also, dismal margins owing to elevated costs remains a concern.

Last Earnings Report

Rite Aid's Q1 Loss Narrower Than Expected, Sales Up Y/Y

Rite Aid reported first-quarter fiscal 2021 results, wherein loss was narrower than expected, while sales beat the Zacks Consensus Estimate. Both metrics improved year over year. The company gained market share and grew double digits in front-end sales as it kept stores open amid the coronavirus outbreak and enhanced its digital capabilities to provide essential services to customers.

Solid growth in prescription deliveries to the tune of 86%, driven by free home delivery services as well as a sturdy performance at Elixir, also contributed to the quarterly results. Further, it noted that the new RxEvolution strategy is on track.

Despite better-than-expected first-quarter results, management withdrew guidance for fiscal 2021 due to continued uncertainty in relation to the COVID-19 pandemic. It also anticipates possible adverse impacts on acute prescription volumes, SG&A expenses and Pharmacy Services Segment memberships.

The company delivered an adjusted loss of 4 cents per share, narrower than the Zacks Consensus Estimate of a loss of 54 cents. Also, the bottom line came below the year-ago quarter's adjusted loss of 14 cents. This might be attributable to a rise in gross profit and lower interest expenses, somewhat offset by increased SG&A expenses stemming from COVID-19-related investments.

Revenues grew 12.2% to \$6,027 million and surpassed the Zacks Consensus Estimate of \$5,599 million. During the quarter, retail pharmacy segment revenues grew 6.7% due to higher same-store sales. In the pharmacy services segment, revenues rose 26.2% owing to a rise in Medicare Part D membership.

Retail pharmacy same-store sales advanced 6.6%, thanks to a 14.2% and 2.2% rise in front-end and pharmacy sales, respectively. Excluding cigarettes and tobacco products, front-end same-store sales rose 16% on the back of solid demand for general cleaning products, sanitizers, wipes, paper products, liquor, over-the-counter products and summer seasonal products. Apart from these, average order value and units per transaction increased to the tune of 87% and 43% year over year, respectively.

Further, prescription count at same-store sales, adjusted to 30-day equivalents, inched up 0.4%. The uptick was due to growth in maintenance medication fills, somewhat offset by reduced acute prescription count to the tune of 14.8%, stemming from a delay in outpatient medical visits and optional surgical procedures due to COVID-19. Also, prescription sales contributed 64.2% to total drugstore sales.

Moreover, the company witnessed comparable front-end sales (excluding cigarettes and tobacco products) growth of 7.2% in the first three weeks of June, driven by robust demand for personal care, paper products and OTC medications.

During the reported quarter, Rite Aid's gross profit came in at \$1,081.5 million, up 4.9% from the prior-year quarter, while gross margin contracted 43 basis points to 26.2%. Adjusted EBITDA decreased 2.6% year over year to \$107.4 million, while adjusted EBITDA margin contracted 30 bps to 1.8% in the quarter under review. The metric includes a negative impact of \$30 million due to the COVID-19 pandemic. In addition, SG&A expenses rose 3.5% year over year to \$1,109 million.

Financial Status

Rite Aid ended the quarter with cash and cash equivalents of approximately \$288.3 million, long-term debt (net of current maturities) of \$3,322 million and total shareholders' equity of \$613.8 million. Further, the company used cash for operating activities of \$118.3 million in the fiscal first quarter. Going ahead, management does not anticipate positive free cash flow in fiscal 2021. Capital expenditure has been lowered from \$350 million to \$275 million. Rite Aid boasts liquidity of roughly \$1.7 billion with a revolving credit facility of nearly \$1.52 billion.

Business Development

The company has sacked 254 corporate employees in both Retail Pharmacy and Pharmacy Services segments. Also, it cut down on expenses related to shrink, advertising, rent, travel and call center. This is expected to result in cost savings of more than \$40 million in fiscal 2021. However, a restructuring expense of \$7 million will be incurred in the fiscal year due to a reduction in corporate employees.

Further, Rite Aid expanded the Instacart delivery facility to more than 2,400 locations and received positive feedback for the same. Apart from this, it successfully completed the expansion of Pay and Go to all stores. This new facility is likely to speed up the process of prescription pickup, both in-store and at drive-through locations. Moreover, it is progressing well with the rollout of the Buy Online Pickup In Store initiative, which will offer better drive through and curbside pickup options. Also, the surge in demand for Tele Health in the wake of COVID-19 has led the company to accelerate the launch of Rite Aid Virtual Care.

The company now intends to remodel 45 stores in fiscal 2021 as compared to 75 stores guided earlier due to lesser permitting and construction activity as a result of COVID-19. The remaining 30 stores will be remodeled in the beginning of fiscal 2022.

Quarter Ending	05/2020
Report Date	Jun 25, 2020
Sales Surprise	7.66%
EPS Surprise	92.59%
Quarterly EPS	-0.04
Annual EPS (TTM)	0.25

Recent News

Rite Aid Expands COVID-19 Testing Site to Michigan and Ohio - Jul 29, 2020

Rite Aid continues to expand its efforts to curb the spread of the COVID-19 virus by launching two no-charge testing sites in Michigan and four in Ohio. These testing locations are now open and will operate via drive-through windows at its stores. It will be open for testing from 10 am to 8 pm in the weekdays and for 10 am to 5 pm during weekends. This brings the total number of testing facilities to 264. Also, all these testing locations can now perform more than 96,100 tests each week. Moreover, individuals can take online appointments to avail this facility.

Rite Aid Continues Expansion of Coronavirus Testing Sites – Jul 15, 2020

Rite Aid has been contributing to the society in these times by opening various COVID-19 testing locations across the United States in collaboration with the U.S. Department of Health and Human Services (HHS). In this regard, the company has now added 161 drive-through locations in California, Washington, Idaho, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania and Virginia. These new sites will be open from today and operate from 10 am to 8 pm on the weekdays and from 10 am to 5 pm during weekends. This brings the total number of testing facilities to 258. Also, these testing locations can now perform roughly 94,000 tests each week, which is double the prior figure.

Rite Aid Expands COVID-19 Testing Facilities – Jun 19, 2020

Rite Aid has currently expanded its efforts to curb the spread of the COVID-19 virus by launching five no-charge testing sites at New Jersey, Ohio And Michigan. These testing locations are now open and will operate via drive-through windows at its stores. It will be open for testing from 10 am to 8 pm in the weekdays and for 10 am to 5 pm during weekends. This brings the total number of testing facilities to 97. Also, all these testing locations can now perform more than 48,000 tests each week. Moreover, individuals can take online appointments to avail this facility.

Rite Aid Continues to Add More COVID-19 Testing Facilities – Jun 10, 2020

Rite Aid has currently expanded its efforts to curb the spread of the COVID-19 virus by launching 21 no-charge testing sites. These testing locations will be accessible from June 11 and will operate via drive-through windows at its stores. It will be open for testing from 10 am to 8 pm in the weekdays and for 10 am to 5 pm during weekends. This brings the total number of testing facilities to 92. Also, all these testing locations can now perform roughly 47,000 tests each week. Moreover, individuals can take online appointments to avail this facility.

Valuation

Rite Aid shares are down 15.9% in the year-to-date period but up nearly 101.5% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 19.3% while the Zacks Retail-Wholesale sector is up 36.3%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 2.7% but the sector is up 44.5%.

The S&P 500 index is up 9% in the year-to-date period and 20.2% in the past year.

The stock is currently trading at 0.03X forward 12-month sales, which compares to 0.25X for the Zacks sub-industry, 1.32X for the Zacks sector and 3.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.28X and as low as 0.01X, with a 5-year median of 0.08X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 0.03X forward 12-month sales.

The table below shows summary valuation data for RAD

Valuation Multiples - RAD					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.03	0.25	1.32	3.84
	5-Year High	0.28	0.65	1.32	3.84
	5-Year Low	0.01	0.24	0.82	2.53
	5-Year Median	0.08	0.41	0.99	3.07
EV/EBITDA TTM	Current	7.26	5.82	20.2	13.29
	5-Year High	14.25	13.66	20.2	13.29
	5-Year Low	NA	5.81	11.15	8.22
	5-Year Median	7.46	7.91	12.96	10.91
P/B TTM	Current	1.16	1.18	6.25	4.76
	5-Year High	20.48	3.07	6.26	4.76
	5-Year Low	0.27	1.06	3.7	2.83
	5-Year Median	1.62	2.2	5.04	3.76

As of 08/31/2020

Industry Analysis Zacks Industry Rank: Top 47% (119 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Herbalife LTD. (HLF)	Outperform	1
Target Corporation (TGT)	Outperform	1
Cigna Corporation (CI)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
The Kroger Co. (KR)	Neutral	2
Walmart Inc. (WMT)	Neutral	3
Walgreens Boots Alliance, Inc. (WBA)	Underperform	5

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

Industry Comparison Industry: Retail - Pharmacies And Drug Stores				Industry Peers		
	RAD	X Industry	S&P 500	CVS	HLF	WBA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	1	5
VGM Score	B	-	-	A	B	A
Market Cap	711.45 M	3.98 B	23.72 B	81.30 B	7.25 B	32.95 B
# of Analysts	2	4	14	11	1	
Dividend Yield	0.00%	0.00%	1.65%	3.22%	0.00%	4.92%
Value Score	C	-	-	A	C	A
Cash/Price	0.39	0.22	0.07	0.21	0.24	0.02
EV/EBITDA	13.56	6.93	13.28	7.76	11.51	6.09
PEG F1	25.78	1.58	3.03	1.54	NA	1.62
P/B	1.16	1.33	3.17	1.19	NA	1.56
P/CF	2.12	5.24	12.87	5.94	14.63	4.54
P/E F1	25.78	11.38	21.63	8.60	14.16	8.12
P/S TTM	0.03	0.32	2.53	0.31	1.43	0.24
Earnings Yield	3.84%	9.35%	4.39%	11.64%	7.06%	12.31%
Debt/Equity	9.83	0.13	0.70	0.93	-9.71	0.57
Cash Flow (\$/share)	6.13	3.36	6.93	10.47	3.36	8.38
Growth Score	C	-	-	A	B	B
Historical EPS Growth (3-5 Years)	NA%	6.78%	10.41%	10.17%	4.41%	9.15%
Projected EPS Growth (F1/F0)	236.67%	15.30%	-4.75%	2.08%	23.05%	0.00%
Current Cash Flow Growth	-53.93%	-5.12%	5.22%	-16.33%	-5.12%	-2.42%
Historical Cash Flow Growth (3-5 Years)	-16.86%	-9.96%	8.49%	14.66%	-4.76%	11.05%
Current Ratio	1.47	1.22	1.35	0.98	2.18	0.69
Debt/Capital	90.77%	48.15%	42.92%	48.15%	NA	36.22%
Net Margin	-1.84%	-1.84%	10.25%	3.13%	5.89%	0.55%
Return on Equity	1.66%	-1.26%	14.66%	16.32%	-120.60%	19.43%
Sales/Assets	2.25	1.66	0.50	1.16	1.76	1.66
Projected Sales Growth (F1/F0)	7.12%	0.00%	-1.40%	3.88%	7.32%	0.00%
Momentum Score	A	-	-	B	C	A
Daily Price Change	-4.55%	-2.74%	-0.82%	-1.72%	-0.75%	-1.91%
1-Week Price Change	-0.80%	-1.46%	2.59%	-1.14%	-0.88%	-1.77%
4-Week Price Change	-14.68%	-7.57%	3.55%	-2.72%	-4.19%	-7.45%
12-Week Price Change	-15.01%	-13.52%	-0.44%	-12.04%	7.22%	-19.14%
52-Week Price Change	101.55%	11.88%	2.80%	1.97%	42.75%	-25.73%
20-Day Average Volume (Shares)	2,130,966	2,170,583	1,839,384	6,746,222	1,667,229	5,640,364
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.02%
EPS F1 Estimate 4-Week Change	0.00%	0.86%	0.20%	1.71%	2.06%	-0.02%
EPS F1 Estimate 12-Week Change	135.32%	11.90%	3.87%	2.05%	21.75%	-12.84%
EPS Q1 Estimate Monthly Change	0.00%	0.06%	0.00%	-16.31%	8.43%	0.12%

Source: Zacks Investment Research

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	C
Momentum Score	A
VGM Score	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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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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.

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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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