

Rite Aid Corporation (RAD)

\$17.46 (As of 06/24/21)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/23/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

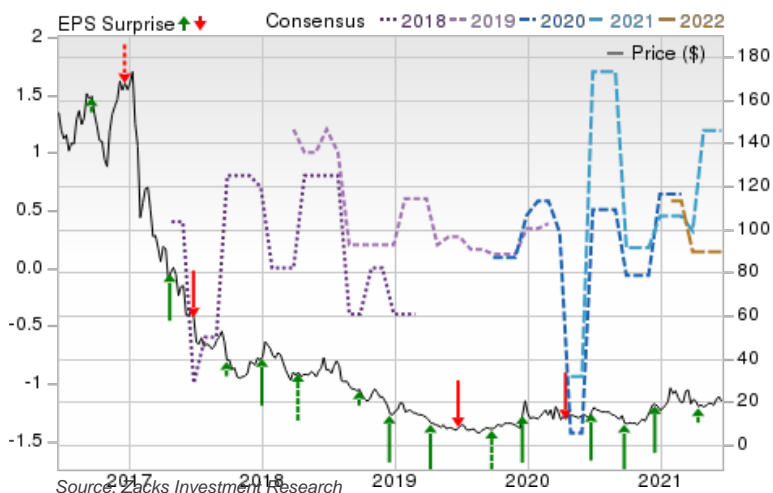
Growth: A

Momentum: A

Summary

Shares of Rite Aid have lagged the industry in the past three months. The stock's sentiment is further hurt by a drab bottom-line view for fiscal 2022. Elixir revenues is likely to remain drab due to lower customer count and a decrease in Medicare Part D lives. Also, retail SG&A expenses are likely to remain high due to a rise in wages and higher investments. Moreover, lesser cases of cough, cold and flu continued to affect front-end same-store sales in the Retail Pharmacy segment in first-quarter fiscal 2022. However, the company reported an earnings beat in first-quarter fiscal 2022. It witnessed a sequential improvement with momentum in many of its businesses. Also, it is progressing well with its RxEvolution strategy and vaccine administration. Continued online strength on the back of expanded delivery facilities bodes well.

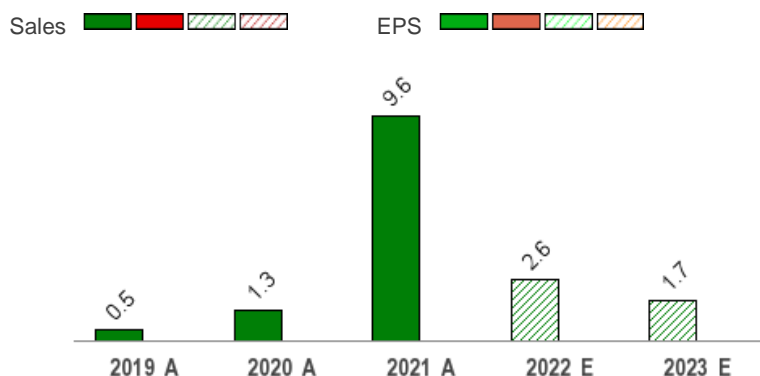
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$32.48 - \$8.86
20-Day Average Volume (Shares)	2,370,279
Market Cap	\$962.1 M
Year-To-Date Price Change	10.3%
Beta	0.83
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Bottom 48% (132 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023	6,266 E	6,277 E	6,288 E	6,250 E	25,080 E
2022	6,161 A	6,096 E	6,114 E	6,197 E	24,662 E
2021	6,027 A	5,982 A	6,117 A	5,917 A	24,043 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023	-\$0.62 E	\$0.37 E	\$0.20 E	-\$0.36 E	-\$0.40 E
2022	\$0.38 A	\$0.40 E	\$0.21 E	-\$0.09 E	\$0.74 E
2021	-\$0.04 A	\$0.25 A	\$0.40 A	-\$0.78 A	-\$0.15 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	72.7%
Last Sales Surprise	-0.9%
EPS F1 Estimate 4-Week Change	-143.3%
Expected Report Date	09/23/2021
Earnings ESP	5.0%
P/E TTM	69.8
P/E F1	23.6
PEG F1	NA
P/S TTM	0.0

The data in the charts and tables, except sales and EPS estimates, is as of 06/24/2021. The report's text, and the analyst-provided sales

estimates, EPS estimates and price target are as of 06/25/2021.

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 Nov 28, 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.

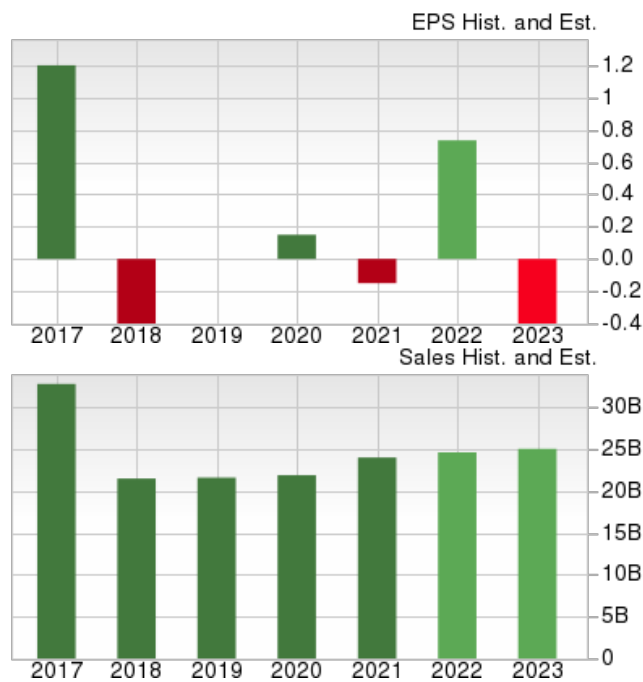
Retail Pharmacy Segment (69% of FY21 Revenues) consists of Rite Aid stores, RediClinic and Health Dialog. *Rite Aid stores* offer prescription drugs and a wide assortment of other merchandise called "front-end" products. Front-end products include over-the-counter (OTC) medications, health and beauty 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 (31% of FY21 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.



Reasons To Sell:

▼ **Drab Fiscal 2022 View Hurts Stock:** Shares of Rite Aid have declined 7.4% in the past three months against the industry's 8.2% growth. The company provided a sluggish fiscal 2022 view, even though the company reported decent first-quarter fiscal 2022 results. Management expects adjusted net loss of 79-24 cents, which compares unfavorably with the year-ago quarter's earnings of \$1.69. Further, the company expects Elixir revenues to remain drab due to lower customer count and a planned decrease in Medicare Part D lives in fiscal 2022. Also, sales in the pharmacy services segment are estimated to be \$7.9-\$8 million, whose midpoint of \$7.95 million is slightly lower than the prior year's reported figure of \$7.97 million. Moreover, acute scripts and front-end over the counter sales are projected to improve year over year but remain below historical levels.

Lesser cases of cough, cold and flu along with a decrease in Medicare Part D memberships and elevated costs remain headwinds. Management issued a drab bottom-line view for fiscal 2022.

▼ **Weakness in Front-End Sales, A Worry:** Although Rite Aid's Retail Pharmacy segment witnessed revenue and same-store sales growth in first-quarter fiscal 2022, front-end same-store sales declined 12%. Excluding cigarettes and tobacco products, front-end same-store sales decreased 11.5% due to lower demand for general cleaning products, sanitizers, wipes, paper products, liquor, and over-the-counter products. Also, lesser cases of cough, cold, and flu affected sales in these products to the tune of almost 30%. Going ahead, management expects cough, cold, and flu-related cases to remain limited in the fiscal second quarter as well.

▼ **Rising SG&A Trend to Hurt FY22 Bottom Line:** Rite Aid has been witnessing elevated expenses for the past few quarters. Notably, SG&A expenses grew 4% year over year to \$1,245.4 million in the first quarter of fiscal 2022. Prior to this, the metric grew 2.9% year over year in fourth-quarter fiscal 2021. Going ahead, retail SG&A expense to remain high due to a rise in wages and increased investments to drive revenues. Persistence of this trend is a threat to the company's profitability in the near term.

▼ **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.

▼ **Macroeconomic Challenges:** Under the present weak macroeconomic environment, external factors, on which the company has no control whatsoever, might affect consumer confidence. These include inflation, interest and unemployment rates, which might have an adverse impact on customers' shopping patterns. Additionally, management assumes a competitive and promotional macro landscape.

Risks

- **Decent Q1 Results:** Rite Aid's earnings beat the Zacks Consensus Estimate in first-quarter fiscal 2022. Moreover, both sales and earnings improved year over year. Notably, revenues grew 2.2% to \$6,161 million driven by solid performance in the Retail Pharmacy which more than offset sluggishness in the Pharmacy Services segment. Further, adjusted earnings of 38 cents per share compared favorably with year ago quarter's loss of 4 cents. With the reopening of economic activities across the United States, the company witnessed momentum in many of its businesses leading to sequential improvement during the fiscal first quarter. Also, management is progressing well with its RxEvolution strategy.
- **Expansion of Delivery Services:** Rite Aid is benefiting from the expansion of delivery services to its customers. Notably, the company has been providing home delivery service to customers with an eligible prescription, with the benefit of zero delivery fees. It is also providing pick-up and drive services through for prescriptions and over-the-counter products at its stores. Moreover, it has launched Buy Online Pickup In Store initiative in a bid to offer better drive through and curbside pickup options. It also expanded the Instacart delivery facility and also made strategic partnerships with Amazon, Postmates and Instacart for home delivery, which is contributing to digital sales growth. Notably, online revenues skyrocketed 190% year over year in the fiscal first quarter on the back of the expanded delivery facilities.

In first-quarter fiscal 2022, Rite Aid partnered with DoorDash to offer same-day delivery of non-prescription health, convenience and wellness essentials. Earlier, it partnered with ScriptDrop to expedite the prescription delivery process. It has also started delivering alcohol across half of its stores and intends to expand this to additional states in the coming weeks. 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. Apart from these, the company noted that it administered roughly 4.7 million COVID-19 vaccines in the fiscal first quarter.

- **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 opened seven new flagship stores, bringing the total flagship store count to 10. Also, in sync with efforts to enhance merchandises, roughly 75% of product categories have been reset. Also, Rite Aid launched first three Stores of the Future and successfully concluded the acquisition of Bartell, which will help expand customer base. The company continues to witness solid performance in PBM, in terms of mail orders. Its new RxEvolution strategy with the help of which Rite Aid is likely to become a leader in mid-market PBM, remains on track. Going ahead, management expects PBM revenues of \$7.85-\$7.95 million for fiscal 2022.
 - **Financial Flexibility:** Rite Aid's long-term debt (net of current maturities) of \$3,014.5 million as of May 29, 2021, declined 1.6% sequentially. Moreover, its debt-to-capitalization ratio remains stable at 0.83 on a sequential basis. Also, Rite Aid looks quite stable from a liquidity stand point. The company boasts strong liquidity of roughly \$1.7 billion.
-

Last Earnings Report

Rite Aid's Beats Q1 Earnings Estimate, Sales Miss

Rite Aid posted first-quarter fiscal 2022 results, wherein earnings beat the Zacks Consensus Estimate while sales lagged the same. However, both the metrics improved year over year. With the reopening of economic activities across the United States, the company witnessed momentum in many of its businesses leading to sequential improvement during the fiscal first quarter. Also, management is progressing well with its RxEvolution strategy. Apart from these, the company noted that it administered roughly 4.7 million COVID-19 Vaccines in the quarter under review.

Quarter Ending 05/2021

Report Date	Jun 24, 2021
Sales Surprise	-0.85%
EPS Surprise	72.73%
Quarterly EPS	0.38
Annual EPS (TTM)	0.25

Its front-end business seems encouraging with recovery in demand for categories like cosmetics and seasonal. In its e-commerce business, Rite Aid partnered with DoorDash during the quarter to offer same-day delivery of non-prescription health, convenience, and wellness essentials, and is receiving positive feedback for the same. Additionally, the company opened seven new flagship stores, bringing the total flagship store count to 10.

Q1 in Detail

The company delivered adjusted earnings of 38 cents per share surpassing the Zacks Consensus Estimate of 22 cents. The figure also compared favorably with year ago quarter's loss of 4 cents.

Revenues grew 2.2% to \$6,161 million but missed the Zacks Consensus Estimate of \$6,214 million. This uptick was mainly due to the solid performance in the Retail Pharmacy which more than offset sluggishness in the Pharmacy Services segment.

During the quarter, the Retail Pharmacy segment revenues grew 5.5%, driven by gains from the acquisition of Bartell and same store sales growth. Retail Pharmacy same-store sales inched up 1.4% driven by 8.2% rise in pharmacy sales, which offset 12% decline in front-end same-store sales. Excluding cigarettes and tobacco products, front-end same-store sales decreased 11.5% due to lower demand for general cleaning products, sanitizers, wipes, paper products, liquor, and over-the-counter products. Further, prescription count at same-store sales, adjusted to 30-day equivalents, rose 11.2% on the back of COVID-19 vaccinations, higher acute prescriptions (up 3%) and maintenance prescriptions (up 2%).

In the Pharmacy Services segment, revenues fell 5.3% owing to lower Medicare Part D membership and lower customer count.

Online revenues skyrocketed 190% year over year in the quarter under review on the back of expanded delivery facilities.

During the reported quarter, adjusted EBITDA grew 29.3% year over year to \$138.9 million. This is mainly due to improved gross profit stemming from higher prescription volume in the retail pharmacy segment. Adjusted EBITDA margin expanded 50 bps to 2.3% in the quarter under review. In addition, SG&A expenses grew 4% year over year to \$1,245.4 million.

Financial Status

Rite Aid ended the quarter with cash and cash equivalents of approximately \$118.5 million, long-term debt (net of current maturities) of \$3,014.5 million and total shareholders' equity of \$604 million. Capital expenditures are likely to be roughly \$300 million in fiscal 2022, which will be invested in digital, store remodeling initiatives and file buys.

Further, the company generated cash from operating activities of \$13.9 million in the fiscal first quarter. Rite Aid also boasts strong liquidity of roughly \$1.7 billion.

Fiscal 2022 Outlook

For fiscal 2022, the company expects sales to be \$25.1-\$25.5 billion with pharmacy services segment sales of \$7.9-\$8 million. Adjusted net loss is envisioned to be 79-24 cents. Further, adjusted EBITDA is likely to be \$440-\$480 million.

The company doesn't anticipate its stores to be further exposed to any COVID-19 led lockdowns in fiscal 2022. It expects Elixir revenues to remain drab due to lower customer count and planned decrease in Medicare Part D lives. Moreover, acute scripts and front-end over the counter sales are projected to improve year over year but remain below historical levels. Higher wages and increased investments to drive revenue further might weigh on retail SG&A expense.

Recent News

Rite Aid Administers COVID-19 Vaccine at All Stores - Apr 30, 2021

Rite Aid announced to provide COVID-19 vaccines to all individuals aged 16 and above at all more than 2,500 stores across 17 states. People can book a prior appointment to ensure vaccine availability and also reduce time. Walk-in appointments are also available in every store on a limited basis.

Valuation

Rite Aid shares are up 5.1% in the year-to-date period and nearly 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 25.7% and 0.1%, in the year-to-date period, respectively. Over the past year, Stocks in the Zacks sub-industry and the sector are up 38.4% and 23%, respectively.

The S&P 500 index is 15.3% in the year-to-date period and 46.5% in the past year.

The stock is currently trading at 0.04X forward 12-month sales, which compares to 0.32X for the Zacks sub-industry, 1.32X for the Zacks sector and 4.73X 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 0.05X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 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	0.04	0.32	1.32	4.73
	5-Year High	0.28	0.58	1.41	4.74
	5-Year Low	0.01	0.22	0.84	3.21
	5-Year Median	0.05	0.35	1.02	3.72
EV/EBITDA TTM	Current	8.7	7.46	19.43	17.53
	5-Year High	14.25	10.39	20.79	17.74
	5-Year Low	2.08	5.56	11.17	9.63
	5-Year Median	4.75	7.15	13.5	13.48
P/B TTM	Current	1.56	1.44	5.55	7.1
	5-Year High	14.17	2.82	6.49	7.1
	5-Year Low	0.27	1.01	3.8	3.84
	5-Year Median	1.24	1.78	5.17	5.02

As of 06/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 48% (132 out of 252)



Top Peers

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

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)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	A	-	-	A	A	B
Market Cap	962.08 M	3.53 B	29.99 B	110.29 B	6.10 B	45.03 B
# of Analysts	2	5	12	11	1	6
Dividend Yield	0.00%	0.00%	1.35%	2.39%	0.00%	3.59%
Value Score	A	-	-	A	A	A
Cash/Price	0.14	0.09	0.06	0.08	0.10	0.02
EV/EBITDA	8.75	10.06	17.12	9.39	10.73	16.62
PEG F1	NA	1.60	2.06	1.63	NA	1.57
P/B	1.59	1.57	4.11	1.55	NA	2.08
P/CF	2.76	7.67	17.50	7.67	11.34	7.40
P/E F1	22.38	10.86	21.14	10.95	10.42	10.76
P/S TTM	0.04	0.37	3.40	0.41	1.06	0.33
Earnings Yield	4.24%	9.21%	4.66%	9.13%	9.60%	9.29%
Debt/Equity	5.02	0.30	0.66	0.83	-1.88	0.51
Cash Flow (\$/share)	6.32	4.56	6.86	10.93	4.56	7.04
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	NA%	8.73%	9.59%	8.73%	9.96%	1.93%
Projected EPS Growth (F1/F0)	590.00%	3.30%	21.79%	2.02%	33.69%	2.18%
Current Cash Flow Growth	3.76%	-3.21%	1.02%	5.04%	21.15%	-19.36%
Historical Cash Flow Growth (3-5 Years)	-10.34%	1.81%	7.28%	12.55%	2.70%	0.93%
Current Ratio	1.35	1.03	1.39	0.93	1.30	0.83
Debt/Capital	83.38%	39.58%	41.51%	45.44%	NA	33.71%
Net Margin	-0.17%	-0.31%	12.06%	2.73%	8.21%	-0.45%
Return on Equity	2.35%	2.35%	16.59%	14.45%	-62.60%	18.32%
Sales/Assets	2.56	1.73	0.51	1.17	1.89	1.57
Projected Sales Growth (F1/F0)	2.41%	2.41%	9.56%	4.60%	11.30%	-4.39%
Momentum Score	A	-	-	B	C	F
Daily Price Change	-14.50%	-0.18%	0.58%	0.05%	-1.37%	0.04%
1-Week Price Change	-9.65%	-4.59%	1.06%	-3.59%	-5.59%	-8.08%
4-Week Price Change	-4.01%	-2.53%	1.56%	-3.07%	-1.99%	-1.77%
12-Week Price Change	-16.62%	-10.73%	6.14%	12.75%	14.13%	-4.84%
52-Week Price Change	7.18%	22.34%	38.35%	30.85%	20.75%	23.93%
20-Day Average Volume (Shares)	2,370,279	1,972,713	1,811,241	4,703,987	921,560	4,300,370
EPS F1 Estimate 1-Week Change	-143.28%	-0.52%	0.00%	-0.05%	0.00%	-0.99%
EPS F1 Estimate 4-Week Change	-143.28%	-0.50%	0.01%	0.05%	0.00%	-0.99%
EPS F1 Estimate 12-Week Change	-260.94%	0.32%	3.54%	1.65%	9.25%	-1.00%

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

EPS Q1 Estimate Monthly Change	5.26%	:	1.30%	0.00%	:	2.61%	0.00%	-2.03%
Source: Zacks Investment Research								

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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 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.