

## Science Applications (SAIC)

**\$92.65** (As of 06/07/21)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/07/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

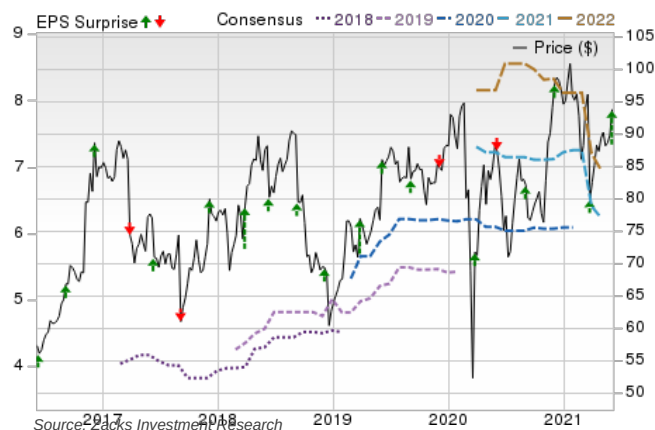
Growth: A

Momentum: D

## Summary

Science Applications' first-quarter fiscal 2022 results benefited from the Unisys Federal acquisition which is generating incremental revenues. Strong performance of its contract portfolio is also a tailwind. Solid margin growth due to lower integration costs was an advantage during the first quarter. Moreover, higher demand for its technology solutions owing to the ongoing digital transformation wave across the defense, space, intelligence and civilian markets, is a positive. However, lower volumes in the supply chain were a concern. The company's adjusted EBITDA was also negatively impacted due to the pandemic. Acquisition-related dis-synergies were an overhang on the top line. Competition from CACI is a persistent concern. Shares of the company have underperformed the industry over the last year.

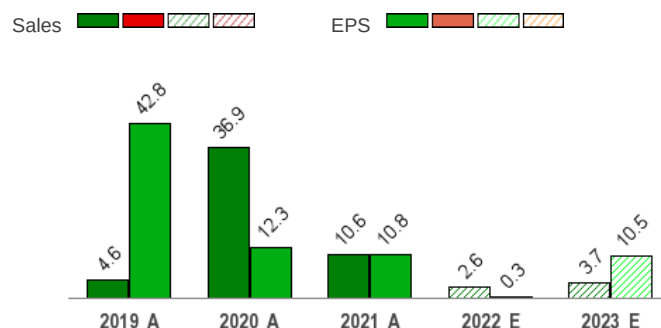
## Price, Consensus & Surprise



## Data Overview

|                                |                                 |
|--------------------------------|---------------------------------|
| 52-Week High-Low               | <b>\$103.95 - \$68.76</b>       |
| 20-Day Average Volume (Shares) | <b>412,209</b>                  |
| Market Cap                     | <b>\$5.4 B</b>                  |
| Year-To-Date Price Change      | <b>-2.1%</b>                    |
| Beta                           | <b>0.91</b>                     |
| Dividend / Dividend Yield      | <b>\$1.48 / 1.6%</b>            |
| Industry                       | <b>Computers - IT Services</b>  |
| Zacks Industry Rank            | <b>Top 42% (106 out of 251)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>30.2%</b>      |
| Last Sales Surprise           | <b>5.0%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.9%</b>       |
| Expected Report Date          | <b>09/01/2021</b> |
| Earnings ESP                  | <b>-2.7%</b>      |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2023 |         |         |         |         | 7,509 E |
| 2022 | 1,878 A | 1,792 E | 1,844 E | 1,777 E | 7,238 E |
| 2021 | 1,757 A | 1,764 A | 1,818 A | 1,717 A | 7,056 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2023 | \$1.70 E | \$1.66 E | \$1.82 E | \$1.75 E | \$6.95 E |
| 2022 | \$1.94 A | \$1.46 E | \$1.59 E | \$1.51 E | \$6.29 E |
| 2021 | \$1.38 A | \$1.63 A | \$1.62 A | \$1.67 A | \$6.27 A |

\*Quarterly figures may not add up to annual.

|         |             |
|---------|-------------|
| P/E TTM | <b>13.5</b> |
| P/E F1  | <b>14.7</b> |
| PEG F1  | <b>2.7</b>  |
| P/S TTM | <b>0.8</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

## Overview

Science Applications International Corporation (SAIC) is one of the leading IT and professional services provider, primarily to the U.S. government. Founded in 1969, the company's headquarter is located at Reston, VA.

Science Applications offers transaction, technical, engineering and enterprise IT services primarily to the U.S. government. Its offerings include technology and equipment platform integration; engineering; logistics; operation and program support services; maintenance of ground and maritime systems; and training and simulation. Apart from this, Science Applications provides end-to-end services like design, development, integration, deployment, management and operations, sustainment, and security of its customers' IT infrastructure.

The company's customers lists primarily includes different government agencies, including the U.S. military, comprising Army, Air Force, Navy, Marines, and Coast Guard; the U.S. Defense Logistics Agency; the National Aeronautics and Space Administration; the U.S. Department of State; and the U.S. Department of Homeland Security. The company serves its customers with more than 15,000 employees.

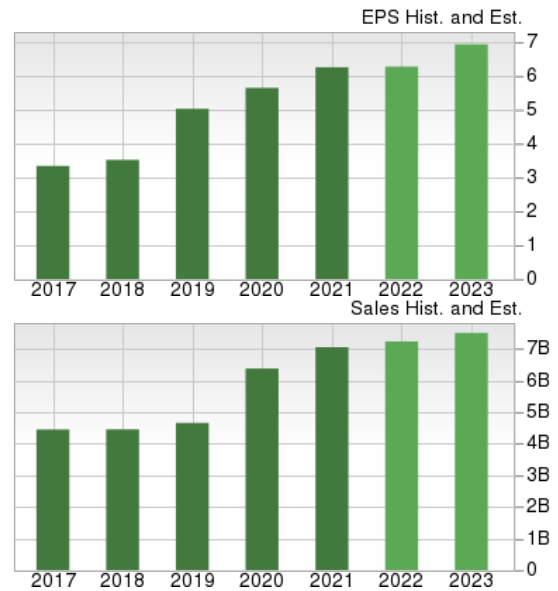
The company generated \$6.38 billion of revenues in fiscal 2020, of which more than 97% came in from the U.S. government. The company segregates its contracts in three different types:

**Cost-reimbursement contracts:** Under this type of contract, the company gets reimbursement for its direct and indirect allocable costs associated with the contract plus a fee (contract profit).

**Time-and-materials (T&M) contracts:** These contracts are based on fixed hourly rates for particular categories of direct labor, plus reimbursement for any other direct costs.

**Firm-fixed price (FFP) contracts:** These contracts provide for a predetermined price for specific solutions.

Its competitors include companies such as General Dynamics, Northrop Grumman, Raytheon Company, Booz Allen Hamilton, CACI International, Leidos Holdings, ManTech International, Serco Group, Perspecta, Accenture, IBM, Unisys and Agility Logistics.



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## Reasons To Buy:

- ▲ Science Applications remains focused on the federal government marketplace and capturing more market share. The company intends to drive operational excellence by intensively focusing on its organic and inorganic growth strategy, and strengthening existing customer relationships while building newer ones. Higher spending as proposed in the latest federal government budget is anticipated to accelerate the pace of contract awards which in turn will be beneficial for Science Applications' top-line growth.
- ▲ A leader in IT outsourcing for the U.S. government agencies, Science Applications has exposure to the rapidly growing DoD and Department of Homeland Security budgets. Its system-integration skills and intelligence expertise consume a significant portion of the funds earmarked for the Department of Homeland Security while creating systems that foster the sharing of critical information among all intelligence agencies. We believe the company is comfortably positioned, given its favored relationship with the DoD. Moreover, cyber-attacks are creating increased awareness, leading to more demand for cyber solutions.
- ▲ Having the government as a big client lends stability to the business and moderates fluctuation in revenues. Although the government generally has a lengthy approval process, the project earns money for a number of years after it is approved. Moreover, government contracts improve the visibility of future revenue streams. The company has been doing very well with a record level of awards, which reflects its disciplined business development actions, consistent operational excellence and high customer satisfaction. The company continues to execute its strategy of winning high-value contracts, delivering excellence to customers and deploying capital for growth. Its robust business model is expected to help it grow further.
- ▲ Science Applications has been aggressive in the acquisition front to boost competitive position. Notably, the spin-off from Leidos had resulted in a very little intelligence business left with the company, due to which it had been lagging to keep pace with competitors. However, the buyout of Scitor Holdings has now put it as a market leader within the intelligence community, immediately boosting its top line, bringing in approximately \$600-million additional revenues annually. The recently-completed acquisition of Engility is expected to boost the company's top-line, profitability and cash flow, consequently enhancing long-term shareholder-value creation. All this makes us optimistic about the company's growth prospects.
- ▲ Science Applications' strong operating cash flow has helped it return cash through regular quarterly dividend payment and share repurchases. Share repurchases is a good way of returning cash to investors while boosting the company's bottom-line. Moreover, consistent returns to shareholders reflect balance sheet strength and company's cash flow generating ability. In the trailing 12 months, Science Applications has generated operating and free cash flows of \$656 million and \$626 million, respectively. During first nine months of fiscal 2021, the company generated operating and free cash flows of \$702 million and \$670 million, respectively. During fiscal 2020, the company paid a total cash dividend of \$87 million and repurchased \$197 million worth of its common stock. In first-half fiscal 2021, it paid \$44 million in dividend. Since the inception of the share-repurchase program in 2013, it has repurchased \$736 million worth of stocks.

Higher spending as proposed in the latest federal government budget is anticipated to accelerate the pace of contract awards which in turn will be beneficial for Science Applications' top-line growth.

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## Reasons To Sell:

- ▼ Though Science Applications has been steadily winning contracts from the federal government, but these low-margin deals have been affecting the company's profitability, which remain a major concern.
- ▼ Unfavorable contract mix is also hurting the company's profitability. The company continues to witness increase in cost reimbursement type contracts compared with fixed price contract, which is expected to be a drag on margins.
- ▼ Science Applications has a highly leveraged balance sheet. The company's long-term debt has increased significantly in the last five years to \$2.4 billion at the end of fiscal 2020 from \$486 million at the end of fiscal 2015. As a result, its annualized interest expenses have increased over five-folds during the same time frame. Additionally, the long-term debt level of \$2.54 billion as of Oct 31, 2020, is significantly higher than the cash and cash equivalents of \$182 million. Also, Science Applications' current debt-to-capital ratio of 0.67 is significantly higher than the industry average of 0.48. Moreover, the company's times interest earned ratio of 3.7 in second-quarter fiscal 2020 is significantly lower than the industry average of 6.5.
- ▼ Revenue concentration is a major risk for Science Applications. In fiscal 2020, over 97% of revenues came from sales to the U.S. federal government either as a prime contractor or subcontractor. Due to this massive dependency, changes in the government's IT spending budget is a huge deciding factor for the company's top-line growth. Moreover, these contracts are subject to extensive legal and regulatory hurdles, which are stringent, and subject to change from time to time. The government also investigates operations periodically to ensure that the terms and conditions have been properly adhered to. Deviations from the terms laid out by the government might result in huge penalties or termination.
- ▼ Science Applications competes primarily in the government IT services arena, which, like other government sectors, consists of many competitors of various sizes. Its main competitors include ManTech International Corporation, CACI, Unisys, Accenture, IBM, all of which are established players in the industry, with their respective strengths. Consequently, the company has to continuously invest in value drivers which act as a hedge against competition. These increase its operating costs and reduce its profitability.
- ▼ Seasonality is an influential factor for the top line. The fourth quarter is usually low-revenue quarter due to holidays and employee vacations. This brings down average top-line growth of the full fiscal.

Revenue concentration and increasing competition remain key concerns for SAIC.

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## Last Earnings Report

### Science Applications Beats on Q1 Earnings

Science Applications reported first-quarter fiscal 2022 results, with earnings and revenues topping the Zacks Consensus Estimate. The company also recorded year-over-year growth in both metrics, mainly benefiting from higher demand for its technology solutions owing to the ongoing digital transformation wave across industries.

The company's fiscal first-quarter adjusted earnings increased 41% year over year to \$1.94 per share and surpassed the Zacks Consensus Estimate by 30.2%.

| Quarter Ending   | 04/2021      |
|------------------|--------------|
| Report Date      | Jun 03, 2021 |
| Sales Surprise   | 5.02%        |
| EPS Surprise     | 30.20%       |
| Quarterly EPS    | 1.94         |
| Annual EPS (TTM) | 6.86         |

Quarterly revenues increased 7% from the year-ago quarter's level to \$1.72 billion, outpacing the consensus mark of \$1.79 billion. Revenues realized from the acquisition of Unisys Federal drove the top line. Solid performance of the company's contract portfolio was a tailwind. Adjusting for the impact of acquired revenues, the metric moved up 2.6%.

Science Applications also announced its intent to acquire health IT company, Halfaker and Associates, to expand its presence in public sector health.

### Quarter in Detail

Net bookings for fiscal first quarter were \$4.2 billion, reflecting a book-to-bill ratio of 2.2. Science Applications' estimated backlog of signed business deals was \$24 billion, of which \$3.3 billion was funded.

Non-GAAP operating income rallied 32% year over year to \$140 million, primarily driven by Unisys Federals' acquisition along with lower integration and indirect costs. Moreover, non-GAAP operating margin expanded 150 basis points (bps) to 7.5%.

Adjusted EBITDA increased 34% year over year to \$184 million. Moreover, adjusted EBITDA margin expanded 200 bps to 9.8%.

### Balance Sheet & Cash Flow

Science Applications ended the fiscal first quarter with cash and cash equivalents of \$261 million, up from the prior quarter's level of \$171 million.

The quarterly cash flow from operating activities was \$189 million, 49% lower year over year.

Excluding the MARPA facility, free cash flow was \$164 million in the said quarter.

During the reported quarter, Science Applications deployed \$71 million of capital, which includes \$22 million for dividend payments, \$23 million for mandatory debt repayment and \$39 million for planned share repurchases.

### Guidance

Science Applications updated its fiscal 2022 guidance. The company anticipates revenues between \$7.15 billion and \$7.30 billion, up from the previous guidance of \$7.1-\$7.3 billion. The top-line guidance indicates a negative impact of \$150 million on the supply chain portfolio, stemming from the coronavirus pandemic.

It expects adjusted earnings in the \$6.15-\$6.40 per share range, up from the previous range of \$6-\$6.25 per share.

Free cash flow is expected between \$430 million and \$470 million for fiscal 2022.

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## Recent News

On Apr 7, Science Applications received a contract from the U.S. Army to continue supporting the U.S. Army Combat Capabilities Development Command, Aviation & Missile Center (DEVCOM AvMC), Software, Simulation, Systems Engineering and Integration (S3I) Directorate. The Directorate will leverage Science Applications' engineering services to support its hardware-in-the-loop and modeling & simulation development.

On Feb 23, Science Application received a \$120-million firm-fixed-price prime contract from the Naval Undersea Warfare Center (NUWC) Division Keyport. Per the contract, Science Applications will support NUWC with its powerful mission engineering and integration capabilities to develop, test and deploy MK48 heavyweight torpedo fuel tanks for Navy and foreign military sales customers. The contract has an 18-month performance period.

On Jan 11, SAIC announced the appointment of Ravi Dankanikote as the Senior Vice President of business development for the company's Defense and Civilian Sector.

On Dec 1, SAIC established the SAIC Charitable Foundation which will offer relief grants to the employees facing disaster-related emergencies.

On Nov 23, SAIC announced that it will display solutions to help government conduct training during covid-19 pandemic at the 2020 Interservice/Industry Training, Simulation and Education Conference (IITSEC).

On Nov 23, SAIC announced the appointment of Bridget Chatman as the Vice President of Inclusion, Diversity (I&D), and Corporate Social Responsibility.

On Nov 17, SAIC announced winning a task order worth up to \$973 million by U.S. Customs and Border Protection (CBP) to enhance U.S. border security.

On Nov 6, SAIC announced the appointment of Prabu Natarajan as the company's executive vice president and chief financial officer, effective January 4, 2021.

On Oct 29, SAIC announced winning a single-award contract worth \$737 million from the US Air Force to implement, integrate, and develop modeling and simulation, training, and analysis standards for the Air Force, Department of Defense, and other organizations.

On Oct 8, SAIC announced receiving a \$49.5 million single-award task order from the US Navy to continue to provide the Royal Saudi Naval Forces support services for command, control, communications, computers, and intelligence, surveillance and reconnaissance (C4ISR) upgrade and refurbishment.

On Oct 6, SAIC revealed that it has received an \$878 million task order from the U.S. General Services Administration (GSA) under which it will provide professional services to advance technology for Multi-Domain Command and Control (MDC2) capabilities.

## Valuation

Shares of SAIC have increased 25.6% year-to-date (YTD) and 4.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Computer & Technology sector gained 13.1% and 14.5%, respectively, in the YTD. Over the past year, the Zacks sub-industry and the sector increased 89.9% and 69%, respectively.

The S&P 500 Index has gained 11.6% YTD and 48% in the past year.

The stock is currently trading at 13.27X forward 12-month earnings, which compares to 33.4X for the Zacks sub-industry, 26.48X for the Zacks sector and 21.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.99X and as low as 8.18X with a 5-year median of 16.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$97 price target reflects 13.93X forward 12-month earnings.

The table below shows summary valuation data for SAIC

| Valuation Multiples - SAIC |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 13.27 | 33.4         | 26.48  | 21.87   |
|                            | 5-Year High   | 24.99 | 35.36        | 28.32  | 23.83   |
|                            | 5-Year Low    | 8.18  | 14.62        | 16.96  | 15.30   |
|                            | 5-Year Median | 16.12 | 26.68        | 20.11  | 18.02   |
| P/S F12M                   | Current       | 0.65  | 6.11         | 4.68   | 4.69    |
|                            | 5-Year High   | 0.86  | 9.91         | 4.88   | 4.74    |
|                            | 5-Year Low    | 0.42  | 3.71         | 2.81   | 3.21    |
|                            | 5-Year Median | 0.70  | 6.46         | 3.53   | 3.71    |
| EV/Sales TTM               | Current       | 1.06  | 6.8          | 5.75   | 4.93    |
|                            | 5-Year High   | 1.39  | 7.73         | 5.78   | 4.93    |
|                            | 5-Year Low    | 0.67  | 3.47         | 3.07   | 2.64    |
|                            | 5-Year Median | 0.99  | 5.51         | 3.96   | 3.62    |

As of 06/07/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 42% (106 out of 251)



## Top Peers

| Company (Ticker)                                  | Rec     | Rank |
|---------------------------------------------------|---------|------|
| ASGN Incorporated (ASGN)                          | Neutral | 3    |
| CACI International, Inc. (CACI)                   | Neutral | 3    |
| CDK Global, Inc. (CDK)                            | Neutral | 3    |
| Amdocs Limited (DOX)                              | Neutral | 3    |
| EPAM Systems, Inc. (EPAM)                         | Neutral | 3    |
| International Business Machines Corporation (IBM) | Neutral | 3    |
| ServiceNow, Inc. (NOW)                            | Neutral | 3    |
| Vertiv Holdings Co. (VRT)                         | Neutral | 2    |

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

| Industry Comparison Industry: Computers - It Services |         |            |           | Industry Peers |           |           |
|-------------------------------------------------------|---------|------------|-----------|----------------|-----------|-----------|
|                                                       | SAIC    | X Industry | S&P 500   | CACI           | NOW       | VRT       |
| Zacks Recommendation (Long Term)                      | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                               | 3       | -          | -         | 3              | 3         | 2         |
| VGM Score                                             | A       | -          | -         | A              | C         | C         |
| Market Cap                                            | 5.37 B  | 4.29 B     | 30.32 B   | 6.07 B         | 90.72 B   | 9.03 B    |
| # of Analysts                                         | 7       | 5          | 12        | 8              | 13        | 3         |
| Dividend Yield                                        | 1.60%   | 0.00%      | 1.29%     | 0.00%          | 0.00%     | 0.04%     |
| Value Score                                           | A       | -          | -         | A              | D         | C         |
| Cash/Price                                            | 0.05    | 0.06       | 0.06      | 0.02           | 0.04      | 0.08      |
| EV/EBITDA                                             | 12.97   | 10.16      | 17.33     | 13.56          | 116.88    | 95.83     |
| PEG F1                                                | 2.66    | 2.03       | 2.13      | 1.07           | 3.00      | 1.19      |
| P/B                                                   | 3.38    | 10.25      | 4.17      | 2.41           | 29.87     | 12.37     |
| P/CF                                                  | 9.75    | 17.24      | 17.93     | 14.88          | 112.49    | 17.65     |
| P/E F1                                                | 14.61   | 28.29      | 21.52     | 14.06          | 83.55     | 23.18     |
| P/S TTM                                               | 0.75    | 5.43       | 3.52      | 1.02           | 18.77     | 1.98      |
| Earnings Yield                                        | 6.79%   | 1.55%      | 4.55%     | 7.11%          | 1.20%     | 4.33%     |
| Debt/Equity                                           | 1.51    | 0.11       | 0.66      | 0.70           | 0.53      | 2.92      |
| Cash Flow (\$/share)                                  | 9.50    | 0.74       | 6.83      | 17.32          | 4.08      | 1.45      |
| Growth Score                                          | A       | -          | -         | B              | A         | B         |
| Historical EPS Growth (3-5 Years)                     | 17.51%  | 17.83%     | 9.44%     | 23.71%         | NA        | NA        |
| Projected EPS Growth (F1/F0)                          | 0.32%   | 11.40%     | 21.30%    | 45.31%         | 18.77%    | 41.88%    |
| Current Cash Flow Growth                              | 17.18%  | 9.94%      | 0.98%     | 22.78%         | 38.21%    | 111.32%   |
| Historical Cash Flow Growth (3-5 Years)               | 23.07%  | 15.09%     | 7.28%     | 17.39%         | 195.71%   | NA        |
| Current Ratio                                         | 1.03    | 1.74       | 1.39      | 1.34           | 1.23      | 1.62      |
| Debt/Capital                                          | 60.10%  | 17.53%     | 41.53%    | 41.33%         | 34.66%    | 74.48%    |
| Net Margin                                            | 3.54%   | 3.18%      | 11.95%    | 6.93%          | 3.15%     | 2.56%     |
| Return on Equity                                      | 26.44%  | 10.54%     | 16.36%    | 15.75%         | 9.32%     | 79.60%    |
| Sales/Assets                                          | 1.23    | 0.74       | 0.51      | 1.03           | 0.61      | 0.93      |
| Projected Sales Growth (F1/F0)                        | 2.58%   | 8.85%      | 9.30%     | 5.89%          | 26.63%    | 12.92%    |
| Momentum Score                                        | D       | -          | -         | B              | D         | F         |
| Daily Price Change                                    | -1.27%  | 0.38%      | -0.33%    | -0.53%         | -0.26%    | 1.18%     |
| 1-Week Price Change                                   | 4.43%   | 1.34%      | 0.58%     | 1.62%          | -2.79%    | 2.14%     |
| 4-Week Price Change                                   | 2.59%   | 7.51%      | 0.12%     | -2.31%         | -1.57%    | 13.00%    |
| 12-Week Price Change                                  | -3.54%  | -0.41%     | 6.91%     | 3.71%          | -7.51%    | 21.51%    |
| 52-Week Price Change                                  | 3.29%   | 39.96%     | 29.97%    | 0.16%          | 18.83%    | 72.61%    |
| 20-Day Average Volume (Shares)                        | 412,209 | 454,928    | 1,799,698 | 145,767        | 1,443,144 | 2,318,270 |
| EPS F1 Estimate 1-Week Change                         | 0.89%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                         | 0.89%   | 0.00%      | 0.01%     | 0.00%          | 0.27%     | 0.00%     |
| EPS F1 Estimate 12-Week Change                        | -11.91% | 2.16%      | 3.36%     | 20.40%         | -4.00%    | 4.40%     |
| EPS Q1 Estimate Monthly Change                        | -3.95%  | 0.00%      | 0.00%     | 0.00%          | 3.33%     | 0.00%     |

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### 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 | D |
| VGM Score      | A |

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

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## Disclosures

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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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## 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.

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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